

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Sault Ste. Marie		County Chippewa
Audit Date 6/30/05	Opinion Date 11/18/05	Date Accountant Report Submitted to State: 2/8/06		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury

We affirm that:

- 1 We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
- 2 We are certified public accountants registered to practice in Michigan

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | | |
|---|----|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1 | Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. | There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P A. 275 of 1980) |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3 | There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P A. 2 of 1968, as amended) |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. | The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. | The local unit holds deposits/investments which do not comply with statutory requirements (P A. 20 of 1943, as amended [MCL 129.91], or P A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. | The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. | The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year) |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. | The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. | The local unit has not adopted an investment policy as required by P A. 196 of 1997 (MCL 129.95) |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits)			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Rehmann Robson			
Street Address 902 S. Huron Street	City Cheboygan	State MI	ZIP 49721
Accountant Signature <i>Annette M. Eustice, CPA, CGFM</i>			Date 2/8/06

CITY OF SAULT STE. MARIE

CHIPPEWA COUNTY



FINANCIAL STATEMENTS

JUNE 30, 2005

CITY OF SAULT STE. MARIE

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

November 18, 2005

Honorable Mayor and Members
of the City Commission
City of Sault Ste. Marie
Sault Ste. Marie, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of Sault Ste. Marie**, (the "City"), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages I-XIV is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ***City of Sault Ste. Marie's*** basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Also, the supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

This section of City of Sault Ste. Marie's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2005. Please read it in conjunction with the Transmittal Letter that is submitted to the City Commission and the City's financial statements, which follow this section.

Financial Highlights

- The City's total net assets at June 30, 2005 were \$70,733,512 consisting of \$51,887,983 in net assets of our governmental activities and \$18,845,529 in net assets of our business-type activities.
- During the fiscal year, we completed 7.57 miles of street reconstruction and associated storm sewers, sidewalks, traffic signals and bike paths with a combined value of approximately \$2,598,807.
- Construction of CSO Phase D, which started in the spring of 2003, was essentially completed. The project was funded by \$9,995,000 of bonds, \$6,520,000 of which are low interest State loan instruments. Since there are non-expended SRF and DWRP funds authorized but still remaining, MDEQ has authorized the City to extend the phase D project to complete Dillon and Washington Way upgrades. The City intends to pay for the local match for the project and an upgrade of the Easterday standpipe with a \$790,000 Limited Tax G.O. bond scheduled for closing on November 9, 2005.
- The City also received \$39,232 in Project Zero funding for the Dial-A-Ride system.
- The parking structure, funded by a \$1,600,350 Michigan Strategic Fund Grant and a \$6,000,000 DDA bond, is underway and scheduled for completion in December 2005.
- The Fort Street Bridge, mainly built with a Critical Bridge Grant, was under construction and scheduled for completion in the fall of 2005.
- The City used a \$1.5 million bond issue to purchase the infrastructure in connection with the West Pier housing development. The bonds are to be repaid through special assessments secured by the incremental tax increase from the development.
- The City purchased a new police car for \$19,133 and used a grant to purchase a snowmobile for \$4,102.
- The Fire Department purchased a demo ambulance for \$78,084.
- In the Parking Fund, \$7,389 was used for new electronic parking meters.
- The Water Department continued the water meter replacement program at a cost of \$53,307.
- The Street Department used Depreciation Reserve funding of \$61,052 to purchase a brush chipper, line painter, spreader box, hot patcher and to buyout the lease for the City Manager's vehicle.
- On the expense side, the cost of providing medical insurance to employees has increased 112 percent between fiscal year 2000 and fiscal year 2005; however the elimination of 14 budgeted positions during 2004-05 helped to slow the increase. The City has worked with a consultant to help control these escalating costs and a change from Blue Cross coverage to a lower cost plan offered by MERS, the City's general retirement plan administrator, is scheduled for November, 2005.
- The City continues to be hurt by problems with three major General Fund revenue components. Property tax growth remains slow, State Shared Revenue has continued to decline and low interest rates have dramatically reduced unrestricted interest earnings. This interest rate decline reversed in 2004-05.

- Taxable value increased from \$235,109,881 to \$242,512,276 between fiscal 2003-04 and fiscal 2004-05.
- Total millage increased from 20.7800 to 21.0550 with operating millage, Library millage and Solid Waste millage unchanged at 16.8139, .8000 and .4200 respectively. Police/Fire Pension millage increased to 3.0211.
- 2004-05 revenue sharing was budgeted at \$1,771,091; actual receipts were \$1,749,523.

Revenue Sharing Comparisons

2004-05	\$1,749,523
2003-04	1,768,805
2002-03	1,968,064
2001-02	2,068,810
2000-01	2,121,096

If revenue sharing had remained at the same level for the last four years, the City would have realized an additional \$929,182 over the last five years.

General Fund Interest Comparisons

2004-05	\$115,427
2003-04	70,263
2002-03	118,396
2001-02	143,218
2000-01	361,440

If interest had remained at the same level, approximately \$1 million more would have been realized over the last five years. Similar interest losses have occurred in other funds.

- Because of debt service requirements, increasing energy costs and steadily declining consumption, water and sewer rates increased approximately 1.4 percent. Our average household is assumed to use 700 cubic feet of water per month. In 2004-05 the combined water and sewer bill, at this consumption rate, went from \$69.57 to \$70.56.

Overview of the Financial Statements

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, combining statements for nonmajor governmental funds, nonmajor enterprise funds and internal service funds and an optional section that presents additional information. The basic financial statements include two kinds of statements that present different views of the City.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City's government, reporting the City's operations in more detail than the government-wide statements.
 - The government funds statements tell how general government services, like public safety, were financed in the short-term and what remains for future spending.

- Proprietary fund statements offer short- and long-term financial information about the activities the government operates like businesses, such as the water and sewer system.
- Fiduciary fund statements provide information about the financial relationships, like the retirement plan for the City employees, in which the City acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. We have also included a section with the combining statements that provide details about our nonmajor governmental funds, nonmajor enterprise funds, internal service funds and the agency fund.

The information below summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of the Management's Discussion and Analysis explains the structure and content of each of the statements.

Major Features of City of Sault Ste. Marie's Government-wide and Fund Financial Statements

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

- The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and accrued interest expense).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include legislative, general government, public safety, health and welfare, recreation and culture and other. The business-type activities include the water and sewer system and the parking system.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the Downtown Development Authority, the Economic Development Corporation, TIFA III (Airport) and the Bayliss Public Library. Although legally separate, these "component units" are incorporated because the City is financially accountable for them.

Government-wide Financial Statements Details:

Scope – Entire City government (except fiduciary funds) and the City’s component units.

Required financial statements –

- 1) Statement of net assets
- 2) Statement of activities

Accounting basis and measurement focus – Accrual accounting and economic resources focus.

Type of asset/liability information – All assets and liabilities, both financial and capital, and short-term and long-term.

Type of inflow/outflow information – All revenues and expenses during the year, regardless of when cash is received or paid.

Fund Financial Statements

The fund financial statements provide more detailed information about the City’s most significant funds, not the City as a whole. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

- Some funds are required by State law and by bond covenants.
- The City Commission establishes other funds to control and manage money for particular purposes (like the Seal Trust) or to show that it is properly using certain taxes and grants (like federal aid from the U. S. Department of Housing and Urban Development).

All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or difference) between them.

The City maintains numerous individual funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in the fund balances for the General Fund, Major Street Fund, Local Street Fund and Capital Projects, Capital Outlay and CSO Phase D Capital Projects Funds, each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General and Special Revenue Funds. Budgetary comparison statements have been provided herein to demonstrate compliance with the General Fund and each major special revenue fund.

Governmental Fund Details:

Scope – The activities of the City that are not proprietary or fiduciary, such as police, fire, and parks.

Required financial statements –

- 1) Balance sheet
- 2) Statement of revenues, expenditures, and changes in fund balances

Accounting basis and measurement focus – Modified accrual accounting and current financial resources focus.

Type of asset/liability information – Only assets that are expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included.

Type of inflow/outflow information – Revenues for which cash is received during or soon after the end of the year and expenditures when goods or services have been received and payment is due during the year or soon thereafter.

Proprietary Funds

Proprietary funds – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information.

- In fact, the City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

- We use internal service funds (the other kind of proprietary fund) to report activities that provide supplies and services for the City's other programs and activities, such as the City's Data Processing Fund.

Proprietary Fund Details:

Scope – Activities the City operates similar to private businesses: the water and sewer system, and the parking facilities.

Required financial statements –

- 1) Statement of net assets
- 2) Statement of revenues, expenses, and changes in net assets
- 3) Statement of cash flows

Accounting basis and measurement focus – Accrual accounting and economic resources focus.

Type of asset/liability information – All assets and liabilities, both financial and capital, and short-term and long-term.

Type of inflow/outflow information – All revenues and expenses during year, regardless of when cash is received or paid.

Fiduciary Funds

Fiduciary funds - The City is the trustee, or fiduciary, for its employees' pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

Fiduciary Fund Details:

Scope – Instances in which the City is the trustee or agent for someone else's resources, such as the retirement plan for the City employees.

Required financial statements –

- 1) Statement of fiduciary net assets
- 2) Statement of changes in fiduciary net assets

Accounting basis and measurement focus – Accrual accounting and economic resources focus.

Type of asset/liability information – All assets and liabilities, both short-term and long-term; the City's funds do not currently contain capital assets, although they can.

Type of inflow/outflow information – All revenues and expenses during the year, regardless of when cash is received or paid.

Financial Analysis of the City as a Whole

Net assets. The City's combined net assets increased by approximately \$7.5 million which resulted from an increase of approximately \$3.8 million from current year activities and an increase of approximately \$3.7 million resulting from prior period adjustments (footnote 4D, page 49). Table A-1 shows changes in assets and liabilities for 2004 and 2005 for governmental activities and business-type activities for the City of Sault Ste. Marie.

Table A-1
City's Net Assets

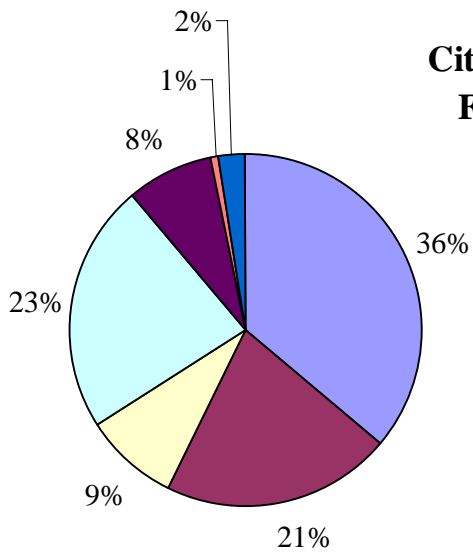
	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current and other assets	\$ 28,440,507	\$ 21,987,335	\$ 9,439,504	\$ 8,879,735	\$ 37,880,011	\$ 30,867,070
Capital assets	<u>40,591,294</u>	<u>36,035,001</u>	<u>41,586,041</u>	<u>39,616,151</u>	<u>82,177,335</u>	<u>75,651,152</u>
Total assets	<u>69,031,801</u>	<u>58,022,336</u>	<u>51,025,545</u>	<u>48,495,886</u>	<u>120,057,346</u>	<u>106,518,222</u>
Liabilities						
Current and other liabilities	5,893,259	7,138,057	688,235	685,797	6,581,494	7,823,854
Long-term debt, outstanding	<u>11,250,559</u>	<u>4,323,124</u>	<u>31,491,781</u>	<u>31,089,859</u>	<u>42,742,340</u>	<u>35,412,983</u>
Total liabilities	<u>17,143,818</u>	<u>11,461,181</u>	<u>32,180,016</u>	<u>31,775,656</u>	<u>49,323,834</u>	<u>43,236,837</u>
Net assets						
Invested in capital assets, net of related debt	29,612,476	31,976,782	10,148,583	8,587,802	39,761,059	40,564,584
Restricted	2,768,123	2,435,831	-	-	2,768,123	2,435,831
Unrestricted	<u>19,507,384</u>	<u>12,148,542</u>	<u>8,696,946</u>	<u>8,132,428</u>	<u>28,204,330</u>	<u>20,280,970</u>
Total net assets	<u>\$ 51,887,983</u>	<u>\$ 46,561,155</u>	<u>\$ 18,845,529</u>	<u>\$ 16,720,230</u>	<u>\$ 70,733,512</u>	<u>\$ 63,281,385</u>

Net assets of the City's governmental activities increased 11 percent to approximately \$51.9 million. However, 62 percent of these assets are restricted as to the purpose they can be used for or are invested in capital assets (buildings, roads, bridges, and so on). The most significant change resulted from the receipt of \$6 million in bonds for financing the construction of a parking deck. Consequently, unrestricted net assets showed a \$19.5 million balance at the end of this year.

The City does not include in annual budgets the full amounts needed to finance future liabilities arising from property and casualty claims and to pay for unused employee vacation and sick days. The City will include these amounts in future years' budgets as they come due.

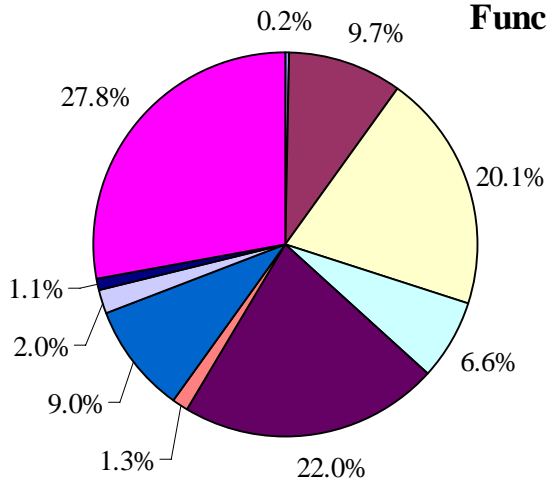
Figures A-3 and A-4 show functional revenues and expenses of the City of Sault Ste. Marie. Table A-2 and the narrative that follows consider the operation of the governmental and business-type activities separately.

Figure A-3
City of Sault Ste. Marie
Functional Revenue



- Charges for services
- Operating grants and contributions
- Capital grants and contributions
- Property taxes
- State shared revenues
- Net appreciation of investments
- Interest earnings

Figure A-4
City of Sault Ste. Marie
Functional Expenses



- Legislative
- General government
- Public safety
- Health and welfare
- Public works
- Interest on long-term debt
- Culture and recreation
- Other
- Parking
- Water and sewer

Table A-2 provides a summary of the Revenues and Expenditures and how they impact the net assets for the City of Sault Ste. Marie over a two year period.

Table A-2
Changes in the City of Sault Ste. Marie's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
Program revenues						
Charges for services	\$ 2,175,510	\$ 2,090,401	\$ 5,730,840	\$ 5,340,207	\$ 7,906,350	\$ 7,430,608
Operating grants	4,303,999	3,544,035	243,715	1,748,801	4,547,714	5,292,836
Capital grants	1,907,539	1,230,051	-	-	1,907,539	1,230,051
General revenues						
Property taxes	5,033,346	4,861,097	-	-	5,033,346	4,861,097
State shared revenue	1,767,258	1,785,290	-	-	1,767,258	1,785,290
Interest earnings	415,452	295,793	103,548	80,762	519,000	376,555
Other	134,436	-	-	-	134,436	-
Transfers	(642,328)	(54,172)	642,328	54,172	-	-
Total revenues	<u>15,095,212</u>	<u>13,752,795</u>	<u>6,720,431</u>	<u>7,223,942</u>	<u>21,815,643</u>	<u>20,976,437</u>
Expenses						
Legislative	43,668	51,044	-	-	43,668	51,044
General government	1,757,428	1,712,962	-	-	1,757,428	1,712,962
Public safety	3,619,577	3,562,657	-	-	3,619,577	3,562,657
Health and welfare	1,195,534	1,217,091	-	-	1,195,534	1,217,091
Public works	3,977,166	6,041,048	-	-	3,977,166	6,041,048
Culture and recreation	1,634,495	1,618,671	-	-	1,634,495	1,618,671
Other expenses	368,114	498,313	-	-	368,114	498,313
Interest on long-term debt	236,251	213,325	-	-	236,251	213,325
Water and sewer	-	-	5,010,601	4,628,877	5,010,601	4,628,877
Parking facilities	-	-	203,440	203,170	203,440	203,170
Total expenses	<u>12,832,233</u>	<u>14,915,111</u>	<u>5,214,041</u>	<u>4,832,047</u>	<u>18,046,274</u>	<u>19,747,158</u>
Change in net assets	2,262,979	(1,162,316)	1,506,390	2,391,895	3,769,369	1,229,279
Net assets, beginning of the year, (as restated 2005)	<u>49,625,004</u>	<u>47,723,771</u>	<u>17,339,139</u>	<u>14,328,335</u>	<u>66,964,143</u>	<u>62,052,106</u>
Net assets – end of year	<u>\$ 51,887,983</u>	<u>\$ 46,561,155</u>	<u>\$ 18,845,529</u>	<u>\$ 16,720,230</u>	<u>\$ 70,733,512</u>	<u>\$ 63,281,385</u>

Governmental Activities

Table A-3 presents the cost of the City's five largest programs - general government, public safety, public works, health and welfare, and recreation and culture, as well as each program's net cost (total costs less fees generated by the activities and intergovernmental aid). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

- The cost of all governmental activities was \$12,832,233.

- However, the amount that our taxpayers paid for these activities through City taxes was only \$5,033,346.
- Some of the costs were paid by:
 - Those who directly benefited from the programs (\$2,175,510)
 - Other governments and organizations subsidized certain programs with grants and contributions (\$6,211,538)
- The City paid for the \$3,684,671 “Public Benefit” portion with \$5,033,346 in taxes and with other revenues such as interest and unrestricted State Revenue Sharing of \$2,182,710.

Table A-3
Net Cost of City of Sault Ste. Marie’s Five Largest Governmental Activities

	Total Cost Activities		Net Cost (Benefit) of Services	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
General government	\$ 1,757,428	\$ 1,712,962	\$ 1,070,463	\$ 792,135
Public safety	3,619,577	3,562,657	3,180,856	2,915,672
Public works	3,977,166	6,041,048	(849,540)	3,076,149
Health and welfare	1,195,534	1,217,091	95,998	152,425
Recreation and culture	<u>1,634,495</u>	<u>1,618,671</u>	<u>303,213</u>	<u>354,836</u>
Total	<u>\$ 12,184,200</u>	<u>\$ 14,152,429</u>	<u>\$ 3,800,990</u>	<u>\$ 7,291,217</u>

Business-type Activities

Revenues of the City’s business-type activities decreased slightly from the prior fiscal year. Water and sewer billings increased \$383,958 or 7 percent. Rates were increased to address the increased debt service requirements imposed by the sale of the three CSO D bond issues.

In the Parking Fund, operating revenue increased slightly. Permit revenue decreased nearly \$3,350, but exceeded budget. Fines and meter receipts increased approximately \$13,640.

The biggest change was the decrease in operating grants of \$1.5 million which resulted from the completion of the CSO Phase D Project.

Financial Analysis of the City’s Funds

As the City completed the year, the General Fund’s fund balance increased \$459,711. This compares favorably to an anticipated \$447,648 decrease. Please note that construction projects that were budgeted, but not completed, account for \$187,186 of this increase in fund balance.

The Major Street Fund’s fund balance increased \$218,416 compared to a budgeted decrease of \$156,447. Please note that \$160,500 of this increase is for capital outlay projects that were funded but not completed during the fiscal year.

The Local Street fund balance increased \$214,804 compared to a budgeted decrease of \$467,950. Please note that \$493,500 of this favorable balance is for capital outlay projects that were funded but not completed during the fiscal year.

The improvement in fund balance is due in part to the City's efforts to address a structural deficit that has occurred through a combination of stagnant or reduced revenues along with a rapid escalation of health care costs. The City reduced its work force by using a combination of hiring freezes and early retirement incentives. These measures reduced the work force by 14 positions. All employees taking advantage of the incentives were required to retire in September and October of 2004.

General Fund Budgetary Highlights

Over the course of the year, the City Commission revised the City budget several times. These budget amendments fall into seven major categories:

- 1) Changes reflecting retirement incentives and the hours worked by the individuals who retired; the adopted budget reflected 14 vacant positions while all affected employees retired in September and October. Total costs were approximately \$152,000.
- 2) Changes in the Dial-A-Ride funding from the State increased both revenue and expenses by \$39,232 with the extension of Project Zero.
- 3) Miscellaneous Police Grants increased \$58,052 for snowmobile enforcement, curfew enforcement, additional border security and seatbelt enforcement.
- 4) The sale of the West Pier Bonds increased bond proceeds and capital outlay transfers by \$1,500,000.
- 5) The City Commission authorized the purchase of a demo ambulance with \$78,084 of Fire Replacement Reserve cash.
- 6) Changes in the MERS Retirement budget to reflect increased costs of \$32,900.
- 7) Changes in the Kemp Marina reflect an estimated \$30,000 shortfall, mainly due to dramatically increased fuel costs.

Actual expenditures and transfers were approximately \$1,320,000 under budget. Forty-four percent of the favorable variance is the result of capital outlay lagging behind the budget. \$375,877 of this \$581,025 in unspent capital outlay budget represents the proposed Sherman Park Upgrade Project that will be funded by a \$198,250 State Grant, \$179,000 in Seal Estate funds and General Fund monies. As the budgeted capital outlay items are expended in fiscal 2006, a substantial portion of the favorable variance will be eliminated. Most other General Fund cost centers did come in under budget.

Revenue came in approximately \$169,000 under budget. Much of the shortfall is capital related State Grants of \$208,495 for projects not yet completed and \$234,860 for capital project related transfers for Seal and Osborn Trust funded projects. State shared revenue lagged both the budget and the prior year, but not as badly as in recent fiscal years. Until there is a significant change in both the State and national economies, the strain on the City's budget will continue.

The ending fund balance is approximately \$965,000 higher than anticipated because of the combination of the items noted above.

Capital Assets

At the end of 2006, the City had invested \$82,177,335 in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, bridges, and water and sewer lines. (See the Capital Asset Table below) This amount represents a net increase (including additions and deductions) of \$3,860,756, or 5 percent, over last year.

Table A-4
City of Sault Ste. Marie's Capital Assets
(net of depreciation, where applicable)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		<u>Total</u>
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>Percent Change 2005-2004</u>
Land and improvements	\$ 4,331,670	\$ 4,457,266	\$ 164,243	\$ 164,243	\$ 4,495,913	\$ 4,621,509	-3%
Building and improvements	3,754,223	3,892,256	8,151,840	8,382,685	11,906,063	12,274,941	-3%
Equipment	2,380,869	2,683,573	1,122,305	1,219,963	3,503,174	3,903,536	-10%
Infrastructure	26,530,612	25,693,739	32,147,653	24,428,711	58,678,265	50,122,450	17%
Construction-in-progress	<u>3,593,920</u>	<u>1,973,594</u>	<u>-</u>	<u>5,420,549</u>	<u>3,593,920</u>	<u>7,394,143</u>	<u>-51%</u>
Total	<u>\$40,591,294</u>	<u>\$38,700,428</u>	<u>\$41,586,041</u>	<u>\$39,616,151</u>	<u>\$82,177,335</u>	<u>\$78,316,579</u>	<u>5%</u>

The City's fiscal year 2006 capital projects budgets anticipate \$7,065,750 in spending, principally for the Fort Street Bridge, East Spruce, Dillon/Washington Way, West Portage and Aune-Osborn Restroom projects. This would be funded by a combination of \$2,019,200 in local funding, \$3,939,000 in grants and approximately \$1,100,000 in long term debt.

In addition, the Parking Structure, funded by \$6,000,000 in 2004-05 bonding and a \$1,600,000 grant, was under construction shortly after the start of fiscal 2006.

More detailed information about the City's capital assets is presented in the Notes to the Financial Statements.

Long-term Debt

At year-end the City had approximately \$42.4 million in bonds and notes outstanding - an increase of 21 percent over last year - as shown in the table below. More detailed information about the City's long-term liabilities is presented in notes to the financial statements.

New debt during the fiscal year included \$1.5 million for acquisition of the infrastructure at the West Pier development and \$6 million for construction of the parking structure between Ashmun Street and War Memorial Hospital. \$1.964 million of previously approved State Revolving Loan and Drinking Water Revolving Loan funds were received. Another \$526,500 is approved but not yet drawn down. Most, if not all, will be used for the Dillon/Washington Way extrusion to the CSO Phase D Project.

Table A-5
City of Sault Ste. Marie's Outstanding Debt

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		<u>Total</u>
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>Percent Change 2005-2004</u>
Notes and installments	\$ 753,818	\$ 793,219	\$ -	\$ -	\$ 753,818	\$ 793,219	-5%
General obligation bonds (backed by the City)	8,805,000	1,645,000	216,159	451,298	9,021,159	2,096,298	430%
Revenue bonds and notes (backed by specific tax and fee revenues)	<u>1,420,000</u>	<u>1,620,000</u>	<u>31,221,299</u>	<u>30,577,051</u>	<u>32,641,299</u>	<u>32,197,051</u>	<u>1%</u>
Total	<u>\$10,978,818</u>	<u>\$ 4,058,219</u>	<u>\$31,437,458</u>	<u>\$31,028,349</u>	<u>\$42,416,276</u>	<u>\$35,086,568</u>	<u>21%</u>

Economic Factors and Next Year's Budgets and Rates

- The City's elected and appointed officials considered many factors when setting the fiscal year 2006 General Fund Budget. A continuing reduction in state revenue, small incremental increase in property tax revenue, loss of interest earnings and rapidly escalating health care costs are combining to force officials to re-evaluate how the City does business.
- Efforts to reduce the structural deficit have improved the General Fund balance. The City will need to continue to address this in order to stop drawing down the General Fund's fund balance indefinitely. Services may be eliminated.
- The City has used attrition and retirement incentives to eliminate 14 positions between fiscal 2004 and 2005. A new health insurance carrier to replace Blue Cross in October 2005 will, at least temporarily, reverse the trend of rapidly escalating health care costs. Management and the City's unionized employees are working together in an attempt to control these costs.
- In the Sewer & Water Fund, the cost to a water and sewer customer will go from \$69.57 to \$70.56 for 700 cubic feet, the average consumption for a residential user. This is an increase of 99 cents or 1.43 percent. With the change to a 3-year average for consumption, rather than the previously used 5-year average, 2004-05 actual consumption was much closer to the amount estimated in establishing 2004-05 rates than has been the case previously.
- The City intends to issue bonds of approximately \$800,000 for the local match for the Dillon/Washington Way and Easterday Standpipe Project and to finance the Aune-Osborn Park restroom facility for an estimated \$375,000.
- The Federal Government notified the City that the West Portage Avenue relocation is eligible for High Priority Project funding. The City may be required to bond for this project and receive the HPP funds over a number of future federal fiscal years.

- While the City anticipated increases in utility and fuel costs when establishing the 2005-06 budget, rapid cost increases may force the City to revisit these budgets.

Contacting the City's Financial Management

The financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact Spencer Nebel, City Manager, 325 Court Street, City of Sault Ste. Marie, MI 49783.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF SAULT STE. MARIE

STATEMENT OF NET ASSETS

JUNE 30, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 11,307,144	\$ 4,170,260	\$ 15,477,404
Investments	-	-	-
Restricted cash and cash equivalents	-	4,477,354	4,477,354
Restricted investments	7,931,091	-	7,931,091
Receivables, net	8,829,546	638,034	9,467,580
Other	375,650	150,932	526,582
Internal balances	(2,924)	2,924	-
Capital assets not being depreciated	5,159,826	164,243	5,324,069
Capital assets, net of depreciation	35,431,468	41,421,798	76,853,266
Total assets	69,031,801	51,025,545	120,057,346
Liabilities			
Accounts payable and accrued expenses	1,377,290	688,235	2,065,525
Unearned revenue	4,515,969	-	4,515,969
Noncurrent liabilities			
Due within one year	571,304	1,576,159	2,147,463
Due in more than one year	10,679,255	29,915,622	40,594,877
Total liabilities	17,143,818	32,180,016	49,323,834
Net assets			
Invested in capital assets, net of related debt	29,612,476	10,148,583	39,761,059
Restricted for trust and perpetual care funds	2,768,123	-	2,768,123
Restricted for endowments	-	-	-
Unrestricted	19,507,384	8,696,946	28,204,330
Total net assets	\$ 51,887,983	\$ 18,845,529	\$ 70,733,512

The accompanying notes are an integral part of these basic financial statements.

Component Units			
Downtown Development Authority	Economic Development Corporation	TIFA	Library
\$ 1,265,599	\$ 140,809	\$ 171,130	\$ 478,690
-	320,000	-	77,997
-	-	-	-
-	-	-	154,849
26,357	396	-	21,500
-	-	-	1,518
-	-	-	-
-	20,000	-	22,822
-	6,605	-	220,175
1,291,956	487,810	171,130	977,551
8,901	7,845	132,840	61,641
-	-	-	-
-	-	-	-
-	6,385	-	19,641
8,901	14,230	132,840	81,282
-	26,605	-	242,997
-	-	-	-
-	-	-	154,849
1,283,055	446,975	38,290	498,423
\$ 1,283,055	\$ 473,580	\$ 38,290	\$ 896,269

CITY OF SAULT STE. MARIE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
Legislative	\$ 43,668	\$ -	\$ -	\$ -
General government	1,757,428	142,147	544,818	-
Public safety	3,619,577	50,246	319,289	69,186
Health and welfare	1,195,534	1,099,536	-	-
Public works	3,977,166	-	3,059,537	1,767,169
Culture and recreation	1,634,495	879,743	380,355	71,184
Other	368,114	3,838	-	-
Interest on long-term debt	236,251	-	-	-
Total governmental activities	12,832,233	2,175,510	4,303,999	1,907,539
Business-type activities				
Water and sewer	5,010,601	5,533,876	239,315	-
Parking	203,440	196,964	4,400	-
Total business-type activities	5,214,041	5,730,840	243,715	-
Total primary government	\$ 18,046,274	\$ 7,906,350	\$ 4,547,714	\$ 1,907,539
Component units				
Downtown Development Authority	587,631	-	109,102	-
Economic Development Corporation	150,379	-	154,043	-
TIFA	159,671	-	-	-
Library	652,996	130,847	514,359	-
Total component units	\$ 1,550,677	\$ 130,847	\$ 777,504	\$ -

Continued...

CITY OF SAULT STE. MARIE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net (expense) revenue	\$ (4,445,185)	\$ 760,514	\$ (3,684,671)
General revenues			
Property taxes	5,033,346	-	5,033,346
State revenues	1,767,258	-	1,767,258
Interest earnings	415,452	103,548	519,000
Net appreciation in market value of investments	134,436	-	134,436
Transfers - internal activities	(642,328)	642,328	-
Total general revenues	6,708,164	745,876	7,454,040
Change in net assets	2,262,979	1,506,390	3,769,369
Net assets, beginning of year, as previously reported	46,561,155	16,720,230	63,281,385
Prior period adjustment	3,063,849	618,909	3,682,758
Net assets, beginning of year, as restated	49,625,004	17,339,139	66,964,143
Net assets, end of year	\$ 51,887,983	\$ 18,845,529	\$ 70,733,512

The accompanying notes are an integral part of these basic financial statements.

Component Units			
Downtown Development Authority	Economic Development Corporation	TIFA	Library
\$ (478,529)	\$ 3,664	\$ (159,671)	\$ (7,790)
518,034	-	162,588	-
-	-	-	-
10,755	-	1,209	-
-	-	-	-
-	-	-	-
528,789	-	163,797	-
50,260	3,664	4,126	(7,790)
1,232,795	465,566	34,164	904,059
-	4,350	-	-
1,232,795	469,916	34,164	904,059
\$ 1,283,055	\$ 473,580	\$ 38,290	\$ 896,269

Concluded

FUND FINANCIAL STATEMENTS

CITY OF SAULT STE MARIE

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2005

ASSETS	General	Major Street	Local Street
Cash and cash equivalents	\$ 1,201,684	\$ 774,237	\$ 880,807
Accounts receivable	503,169	-	-
Taxes receivable	4,515,969	-	-
Due from other governmental units	636,176	142,687	82,918
Special assessments receivable	1,225,000	312,393	353,169
Inventory	32,950	-	-
Prepaid expenditures	254,220	-	-
Restricted investments	-	-	-
Total assets	\$ 8,369,168	\$ 1,229,317	\$ 1,316,894
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 117,083	\$ 7,147	\$ 4,438
Accrued expenses	98,096	-	-
Deferred revenue	5,740,969	312,393	353,169
Total liabilities	5,956,148	319,540	357,607
Fund balances			
Reserved for inventory and prepaid expenses	287,170	-	-
Reserved reported in permanent funds	-	-	-
Unreserved			
Designated			
Carbide Dock	171,006	-	-
Subsequent years' expenditures	293,133	17,324	113,856
Reported in special revenue funds	-	-	-
Reported in capital project funds	-	-	-
Undesignated	1,661,711	892,453	845,431
Undesignated reported in special revenue funds	-	-	-
Total fund balances	2,413,020	909,777	959,287
Total liabilities and fund balances	\$ 8,369,168	\$ 1,229,317	\$ 1,316,894

Capital Projects	Capital Outlay	CSO Phase D	Nonmajor Governmental Funds	Total Governmental Funds
\$ 133,214	\$ 1,376,495	\$ 649,231	\$ 4,983,564	\$ 9,999,232
55,000	-	-	54,870	613,039
-	-	-	-	4,515,969
1,622	-	26,278	12,435	902,116
-	-	498,204	406,703	2,795,469
-	-	-	-	32,950
-	-	-	-	254,220
5,453,377	-	-	2,477,714	7,931,091
\$ 5,643,213	\$ 1,376,495	\$ 1,173,713	\$ 7,935,286	\$ 27,044,086

\$ 211,661	\$ 3,868	\$ 72,850	\$ 686,193	\$ 1,103,240
-	-	-	44,835	142,931
-	-	498,204	406,703	7,311,438
211,661	3,868	571,054	1,137,731	8,557,609

-	-	-	-	287,170
-	-	-	2,768,123	2,768,123
-	-	-	-	171,006
-	-	-	-	424,313
-	-	-	194,212	194,212
5,431,552	1,372,627	602,659	3,426,865	10,833,703
-	-	-	-	3,399,595
-	-	-	408,355	408,355
5,431,552	1,372,627	602,659	6,797,555	18,486,477
\$ 5,643,213	\$ 1,376,495	\$ 1,173,713	\$ 7,935,286	\$ 27,044,086

Continued...

CITY OF SAULT STE. MARIE

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2005

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to the Statement of Net Assets

Fund balances - total governmental funds \$ 18,486,477

Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Add - capital assets (net) 39,602,468

Certain assets, such as special assessments receivable, are not due and receivable in the current period and therefore are offset with deferred revenue in the funds.

Add - deferred revenue on special assessments receivable 2,795,469

Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

Add - net assets of governmental activities accounted for in internal service funds 2,349,819

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - compensated absences payable (259,362)

Deduct - bonds and notes payable (10,978,818)

Deduct - accrued interest on bonds and notes payable (108,070)

Net assets of governmental activities **\$ 51,887,983**

Concluded

The accompanying notes are an integral part of these basic financial statements.

CITY OF SAULT STE. MARIE

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2005

	General	Major Street	Local Street
Revenues			
Taxes	\$ 4,805,743	\$ -	\$ -
Special assessments	-	45,305	97,512
Federal sources	135,703	-	-
State sources	2,002,292	1,022,227	437,628
Local sources	103,625	-	-
Licenses and permits	52,970	-	-
Charges for services	2,057,990	-	-
Interest	115,427	27,726	34,867
Miscellaneous	244,035	303	-
Total revenues	9,517,785	1,095,561	570,007
Expenditures			
Current			
Legislative	43,668	-	-
General government	1,714,687	-	-
Public safety	3,463,136	-	-
Health and welfare	1,195,534	-	-
Public works	488,391	775,861	1,528,003
Culture and recreation	1,223,858	-	-
Other	368,114	-	-
Capital outlay	225,374	-	-
Debt service			
Principal	58,801	101,980	98,020
Interest and fiscal charges	51,642	50,571	36,750
Bond issuance costs	-	-	-
Total expenditures	8,833,205	928,412	1,662,773
Revenues over (under) expenditures	684,580	167,149	(1,092,766)
Other financing sources (uses)			
Bond proceeds	1,500,000	-	-
Bond premium	-	-	-
Net appreciation in fair value of investments	-	-	-
Transfers in	92,210	51,267	1,507,570
Transfers out	(1,817,079)	-	(200,000)
Total other financing sources (uses)	(224,869)	51,267	1,307,570
Net change in fund balances	459,711	218,416	214,804
Fund balances, beginning of year, as previously reported	1,898,309	691,361	744,483
Prior period adjustment	55,000	-	-
Fund balances, beginning of year, as restated	1,953,309	691,361	744,483
Fund balances, end of year	\$ 2,413,020	\$ 909,777	\$ 959,287

CITY OF SAULT STE. MARIE

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2005

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds
to the Statement of Activities**

Net change in fund balances - total governmental funds	\$ 6,227,483
Amounts reported for governmental activities in the statement of activities are different because	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Add - capital outlay	4,279,681
Deduct - depreciation expense	(2,257,606)
Special assessments receivable are long-term in nature and are collectable over several years. However the current receipts are reflected as revenues on the fund statements.	
Deduct - special assessment receipts	(392,236)
Add - current year special assessments	1,354,890
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Deduct - bond proceeds	(7,500,000)
Add - principal payments on long-term liabilities	579,401
Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.	
Add - change in net assets from governmental activities accounted for in internal service funds	5,125
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Add - increase in compensated absences	5,543
Deduct - increase in accrued interest	(39,302)
Change in net assets of governmental activities	\$ 2,262,979
	Concluded

The accompanying notes are an integral part of these basic financial statements.

CITY OF SAULT STE. MARIE

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2005

	Budget		Actual	Variance With Amended Budget Positive (Negative)
	Original	Amended		
Revenues				
Taxes	\$ 4,835,505	\$ 4,835,505	\$ 4,805,743	\$ (29,762)
Federal sources	-	41,830	135,703	93,873
State sources	2,063,068	2,378,602	2,002,292	(376,310)
Local sources	96,000	103,625	103,625	-
Licenses and permits	48,200	48,200	52,970	4,770
Charges for services	1,981,636	1,992,205	2,057,990	65,785
Interest	104,500	104,500	115,427	10,927
Miscellaneous revenue	152,960	182,420	244,035	61,615
Total revenues	9,281,869	9,686,887	9,517,785	(169,102)
Expenditures				
Legislative				
City council	45,210	45,210	43,668	1,542
General government				
City manager	210,693	210,693	201,721	8,972
Clerk	180,430	203,345	203,258	87
Assessor	137,511	137,511	134,737	2,774
Attorney	83,710	80,810	72,777	8,033
Finance	355,230	355,230	345,076	10,154
Cemetery	119,065	125,950	125,094	856
Non-departmental	606,660	645,892	632,024	13,868
Total general government	1,693,299	1,759,431	1,714,687	44,744
Public safety				
Police department	1,987,850	2,020,658	1,920,999	99,659
Fire department	981,600	994,750	970,911	23,839
Sane	76,200	76,200	69,661	6,539
PA 302	5,800	5,800	5,349	451
Cops in schools	-	64,700	60,074	4,626
Inspection	281,895	281,895	229,580	52,315
Planning and development	189,490	220,470	206,562	13,908
Total public safety	3,522,835	3,664,473	3,463,136	201,337
Health and welfare				
Ambulance	1,299,150	1,299,150	1,195,534	103,616
Public works				
Engineering	272,482	272,482	260,852	11,630
Sidewalks and alleys	124,620	118,520	64,132	54,388
Composting	97,540	98,340	95,398	2,942
Airport	61,000	61,000	46,352	14,648
Industrial park	22,700	22,700	21,657	1,043
Total public works	578,342	573,042	488,391	84,651

Continued...

CITY OF SAULT STE. MARIE

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2005

	Budget		Actual	Variance With Amended Budget Positive (Negative)
	Original	Amended		
Culture and recreation				
Parks	\$ -	\$ 351,950	\$ 333,167	\$ 18,783
Marina	9,360	9,360	4,629	4,731
Kemp Marina	126,000	171,750	165,875	5,875
Pullar	295,750	295,750	276,934	18,816
Recreation	372,720	372,720	353,537	19,183
Historic homes	3,920	9,159	8,099	1,060
Minneapolis Woods	75,100	82,100	68,281	13,819
Osborn	14,300	14,300	13,336	964
Total culture and recreation	897,150	1,307,089	1,223,858	83,231
Other				
Insurance and bonds	70,000	70,000	(28,551)	98,551
General appropriations	274,000	397,226	333,128	64,098
Community promotion	74,290	74,290	51,035	23,255
Energy administration	12,260	12,760	12,502	258
Total other	430,550	554,276	368,114	186,162
Capital outlay	91,332	806,399	225,374	581,025
Debt service				
Principal	102,460	77,759	58,801	18,958
Interest	-	32,760	51,642	(18,882)
Total debt service	102,460	110,519	110,443	76
Total expenditures	8,660,328	10,119,589	8,833,205	1,286,384
Revenues over (under) expenditures	621,541	(432,702)	684,580	1,117,282
Other financing uses				
Loan proceeds	-	1,500,000	1,500,000	-
Transfers in	81,106	336,151	92,210	(243,941)
Transfers out	(330,000)	(1,851,096)	(1,817,079)	34,017
Total other financing uses	(248,894)	(14,946)	(224,869)	(209,923)
Net change in fund balances	372,647	(447,648)	459,711	907,359
Fund balances, beginning of year, as previously reported	1,898,309	1,898,309	1,898,309	-
Prior period adjustment	-	-	55,000	55,000
Fund balance, beginning of year, as restated	1,898,309	1,898,309	1,953,309	55,000
Fund balances, end of year	\$ 2,270,956	\$ 1,450,661	\$ 2,413,020	\$ 962,359

Concluded

The accompanying notes are an integral part of these basic financial statements.

CITY OF SAULT STE. MARIE

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
MAJOR STREET FUND**

FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts			Variance With Amended Budget Positive (Negative)
	Original	Amended	Actual	
Revenues				
State revenues	\$ 952,400	\$ 1,336,935	\$ 1,022,227	\$ (314,708)
Special assessment	70,000	70,000	45,305	(24,695)
Interest	15,000	15,000	27,726	12,726
Miscellaneous revenue	-	-	303	303
Total revenues	1,037,400	1,421,935	1,095,561	(326,374)
Expenditures				
Public works	910,060	1,477,095	775,861	701,234
Debt service				
Principal	101,980	101,980	101,980	-
Interest	50,574	50,574	50,571	3
Total expenditures	1,062,614	1,629,649	928,412	701,237
Revenues over (under) expenditures	(25,214)	(207,714)	167,149	374,863
Other financing sources (uses)				
Transfers in	-	51,267	51,267	-
Transfers out	(7,500)	-	-	-
Total other financing sources	(7,500)	51,267	51,267	-
Net change in fund balances	(32,714)	(156,447)	218,416	374,863
Fund balances, beginning of year	691,361	691,361	691,361	-
Fund balances, end of year	\$ 658,647	\$ 534,914	\$ 909,777	\$ 374,863

The accompanying notes are an integral part of these basic financial statements.

Capital Projects	Capital Outlay	CSO Phase D	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 227,603	\$ -	\$ -	\$ 5,033,346
-	-	118,956	130,463	392,236
-	39,833	-	-	175,536
-	1,732,526	-	-	5,194,673
55,000	-	-	744,670	903,295
-	-	-	4,430	57,400
-	-	-	78,600	2,136,590
14,535	14,348	25,781	182,768	415,452
-	-	-	8,982	253,320
69,535	2,014,310	144,737	1,149,913	14,561,848
-	-	-	-	43,668
-	-	-	-	1,714,687
-	-	-	-	3,463,136
-	-	-	-	1,195,534
-	-	-	142,402	2,934,657
-	-	-	9,856	1,233,714
-	-	-	10,000	378,114
695,048	1,965,633	2,517,192	23,453	5,426,700
-	-	-	320,600	579,401
-	-	-	52,473	191,436
127,562	-	-	-	127,562
822,610	1,965,633	2,517,192	558,784	17,288,609
(753,075)	48,677	(2,372,455)	591,129	(2,726,761)
6,000,000	-	1,963,641	-	9,463,641
40,880	-	-	-	40,880
-	-	-	134,436	134,436
5,146	488,797	-	124,067	2,269,057
(19,394)	(191,921)	-	(725,376)	(2,953,770)
6,026,632	296,876	1,963,641	(466,873)	8,954,244
5,273,557	345,553	(408,814)	124,256	6,227,483
157,995	1,027,074	1,011,473	6,329,855	11,860,550
-	-	-	343,444	398,444
157,995	1,027,074	1,011,473	6,673,299	12,258,994
\$ 5,431,552	\$ 1,372,627	\$ 602,659	\$ 6,797,555	\$ 18,486,477

Continued...

CITY OF SAULT STE. MARIE

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
LOCAL STREET FUND**

FOR THE YEAR ENDED JUNE 30, 2005

	Budget		Actual	Variance With Amended Budget Positive (Negative)
	Original	Amended		
Revenues				
State revenues	\$ 428,100	\$ 428,100	\$ 437,628	\$ 9,528
Special assessments	45,000	45,000	97,512	52,512
Interest	17,000	17,000	34,867	17,867
Total revenues	490,100	490,100	570,007	79,907
Expenditures				
Public works	728,215	2,130,851	1,528,003	602,848
Debt service				
Principal	98,020	98,020	98,020	-
Interest	36,749	36,749	36,750	(1)
Total expenditures	862,984	2,265,620	1,662,773	602,847
Revenues over (under) expenditures	(372,884)	(1,775,520)	(1,092,766)	682,754
Other financing sources (uses)				
Transfers in	250,000	1,507,570	1,507,570	-
Transfers out	-	(200,000)	(200,000)	-
Total other financing sources	250,000	1,307,570	1,307,570	-
Net change in fund balance	(122,884)	(467,950)	214,804	682,754
Fund balances, beginning of year	744,483	744,483	744,483	-
Fund balances, end of year	\$ 621,599	\$ 276,533	\$ 959,287	\$ 682,754

The accompanying notes are an integral part of these basic financial statements.

CITY OF SAULT STE. MARIE

STATEMENT OF NET ASSETS PROPRIETARY FUNDS

JUNE 30, 2005

	Business-type Activities			Governmental Activities
	Water and Sewer	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Assets				
Current assets				
Cash and cash equivalents	\$ 2,828,768	\$ 1,341,492	\$ 4,170,260	\$ 1,307,912
Accounts receivable	511,439	2,474	513,913	2,953
Special assessment receivable	124,121	-	124,121	-
Inventories	150,932	-	150,932	88,480
Restricted cash and cash equivalents	4,477,354	-	4,477,354	-
Total current assets	8,092,614	1,343,966	9,436,580	1,399,345
Noncurrent assets				
Capital assets not being depreciated	7,771	156,472	164,243	86,894
Capital assets, net of depreciation	41,406,940	14,858	41,421,798	901,932
Total noncurrent assets	41,414,711	171,330	41,586,041	988,826
Total assets	49,507,325	1,515,296	51,022,621	2,388,171
Liabilities				
Current liabilities				
Accounts payable	30,139	-	30,139	23,049
Accrued expenses	658,096	-	658,096	-
Current portion of bonds payable	1,576,159	-	1,576,159	-
Total current liabilities	2,264,394	-	2,264,394	23,049
Noncurrent liabilities				
Compensated absences	49,892	4,431	54,323	12,379
Bonds payable, net of current portion	29,861,299	-	29,861,299	-
Total noncurrent liabilities	29,911,191	4,431	29,915,622	12,379
Total liabilities	32,175,585	4,431	32,180,016	35,428
Net assets				
Invested in capital assets net of related debt	9,977,253	171,330	10,148,583	988,826
Unrestricted	7,354,487	1,339,535	8,694,022	1,363,917
Total net assets	\$ 17,331,740	\$ 1,510,865	\$ 18,842,605	\$ 2,352,743
Reconciliation of Net Assets on the Statement of Net Assets for Enterprise Funds to Net Assets of Business-type Activities on the Statement of Net Assets				
Net assets - total enterprise funds			\$ 18,842,605	
Amounts reported for business-type activities in the statement of net assets are different because an internal service fund is used by management to charge the costs of certain DPW site activities to individual proprietary funds. Assets and liabilities of this internal service fund are included in business-type activities in the statement of net assets.				
Add - portion of internal service funds net assets attributable to business-type funds			2,924	
Net assets of business-type activities			\$ 18,845,529	

The accompanying notes are an integral part of these basic financial statements.

CITY OF SAULT STE. MARIE
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	Business-type Activities			Governmental Activities
	Water and Sewer	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Operating revenues				
Charges for services	\$ 5,533,876	\$ 196,964	\$ 5,730,840	\$ 983,121
Operating expenses				
Staff support	866,328	-	866,328	-
Pump station	506,540	-	506,540	-
Transmission and distribution	385,098	-	385,098	-
Operating meters	112,175	-	112,175	-
Sewage treatment	781,864	-	781,864	-
Parking lot expenses	-	190,880	190,880	-
Depreciation	933,894	3,691	937,585	236,697
Operation of equipment	-	-	-	954,284
Miscellaneous	33,937	-	33,937	-
Total operating expenses	3,619,836	194,571	3,814,407	1,190,981
Operating income (loss)	1,914,040	2,393	1,916,433	(207,860)
Nonoperating revenues (expenses)				
Interest revenue	92,094	11,454	103,548	22,465
Miscellaneous revenue	138,245	4,400	142,645	116,327
Local contribution	101,070	-	101,070	-
Interest expense	(1,367,826)	-	(1,367,826)	-
Total nonoperating revenues (expenses)	(1,036,417)	15,854	(1,020,563)	138,792
Income (loss) before transfers	877,623	18,247	895,870	(69,068)
Transfers				
Transfers in	883,059	230,700	1,113,759	42,385
Transfers out	(356,431)	(115,000)	(471,431)	-
Total transfers	526,628	115,700	642,328	42,385
Change in net assets	1,404,251	133,947	1,538,198	(26,683)
Net assets, beginning of year as previously reported	15,308,580	1,376,918	16,685,498	2,379,426
Prior period adjustment	618,909	-	618,909	-
Net assets, beginning of year, as restated	15,927,489	1,376,918	17,304,407	2,379,426
Net assets, end of year	\$ 17,331,740	\$ 1,510,865	\$ 18,842,605	\$ 2,352,743
Reconciliation of the Statement of Revenues, Expenses and Changes in Net Assets of Enterprise Funds to the Statement of Activities				
Change in net assets - all enterprise funds			\$ 1,538,198	
Amounts reported for business-type activities in the statement of net assets are different because an internal service fund is used by management to charge the costs of certain activities to individual enterprise funds. The net revenue (expense) attributable to that fund is reported with business-type activities.				
Deduct - net operating loss of internal service funds charged to business-type funds			(31,808)	
Change in net assets of business-type activities			\$ 1,506,390	

The accompanying notes are an integral part of these basic financial statements.

CITY OF SAULT STE. MARIE

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	Business-type Activities			Governmental Activities
	Water and Sewer	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash flows from operating activities				
Cash collected from customers	\$ 5,568,399	\$ 195,256	\$ 5,763,655	\$ -
Cash collected from other funds	-	-	-	982,297
Cash paid for employee wages and benefits	(1,200,888)	(113,572)	(1,314,460)	(219,604)
Cash paid for other operating and administrative expenses	(903,544)	(79,217)	(982,761)	(708,560)
Net cash provided by (used in) operating activities	3,463,967	2,467	3,466,434	54,133
Cash flows from non-capital financing activities				
Transfers in	883,059	230,700	1,113,759	42,385
Transfers out	(356,431)	(115,000)	(471,431)	-
Miscellaneous revenue	138,245	4,400	142,645	116,327
Net cash provided by (used in) non-capital financing activities	664,873	120,100	784,973	158,712
Cash flows from capital and related financing activities				
Interest payments	(1,929,421)	-	(1,929,421)	-
Principal payments	(1,554,532)	-	(1,554,532)	-
Special assessment collections	31,519	-	31,519	-
Purchase of property and equipment	(835,508)	(7,256)	(842,764)	(105,488)
Net cash provided by (used in) capital and related financing activities	(4,287,942)	(7,256)	(4,295,198)	(105,488)
Cash flows from investing activities				
Interest revenue	92,094	11,454	103,548	22,465
Net increase (decrease) in cash and cash equivalents	(67,008)	126,765	59,757	129,822
Cash and cash equivalents, beginning of year, as previously reported	6,754,221	1,214,727	7,968,948	1,178,090
Prior period adjustment	618,909	-	618,909	-
Cash and cash equivalents, beginning of year	7,373,130	1,214,727	8,587,857	1,178,090
Cash and cash equivalents, end of year	\$ 7,306,122	\$ 1,341,492	\$ 8,647,614	\$ 1,307,912

Continued...

CITY OF SAULT STE. MARIE

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED JUNE 30, 2005

	Business-type Activities			Governmental
	Water and Sewer	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash flows from operating activities				
Operating income (loss)	\$ 1,914,040	\$ 2,393	\$ 1,916,433	\$ (207,860)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	933,894	3,691	937,585	236,697
Changes in operating assets and liabilities which provided (used) cash				
Accounts receivable	34,523	(1,708)	32,815	(824)
Inventory	22,755	-	22,755	24,332
Accounts payable	(6,184)	(1,888)	(8,072)	2,071
Accrued expenses	572,105	-	572,105	(283)
Compensated absences	(7,166)	(21)	(7,187)	-
Net cash provided (used in) by operating activities	\$ 3,463,967	\$ 2,467	\$ 3,466,434	\$ 54,133

Concluded

Non-cash capital and related financing transactions:

Transfer of capital assets from the CSO D capital project funds.

\$ 2,064,711

The accompanying notes are an integral part of these basic financial statements.

CITY OF SAULT STE MARIE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

JUNE 30, 2005

	Employee Benefits Plan	Agency Fund Current Tax Collection
Assets		
Cash and cash equivalents	\$ 33,646	\$ 73,098
Accounts receivable	57,382	-
Taxes receivable	761,823	-
Restricted investments		
Certificates of deposit	-	384,505
Corporate bonds	4,845,933	-
Equity securities	6,366,493	-
Total assets	12,065,277	\$ 457,603
Liabilities		
Accounts payable	33,646	\$ -
Accrued liabilities	-	385,717
Due to other governmental units	-	71,886
Unearned revenue	761,823	-
Total liabilities	795,469	\$ 457,603
Net assets held in trust for pension benefits	\$ 11,269,808	

The accompanying notes are an integral part of these basic financial statements.

CITY OF SAULT STE. MARIE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
EMPLOYEE BENEFIT PLAN

FOR THE YEAR ENDED JUNE 30, 2005

Additions to net assets attributed to	
Contributions	
Tax revenue/ employer contribution	\$ 696,387
Employee	<u>164,207</u>
Total contributions	<u>860,594</u>
Net appreciation in fair value of investments	500,913
Interest and dividends	<u>394,836</u>
Total additions	<u>1,756,343</u>
Deductions from net assets attributed to	
Benefit payments	1,395,006
Administrative expenses	<u>84,831</u>
Total deductions	<u>1,479,837</u>
Change in net assets	276,506
Net assets, beginning of year	<u>10,993,302</u>
Net assets, end of year	<u><u>\$ 11,269,808</u></u>

The accompanying notes are an integral part of these basic financial statements.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the *City of Sault Ste. Marie* (the “City”) and its component units. The component units discussed below are included in the City’s reporting entity because of the significance of their operational or financial relationship with the City.

Discretely Presented Component Units. The Downtown Development Authority (DDA)/TIFA (TIFA III), Economic Development Corporation (EDC), and Bayliss Public Library (Library), are reported in separate columns to emphasize that they are legally separate from the City. The members of the governing Boards are appointed by the City Commission and the budgets and expenditures must be approved by the City Commission. The City also has the ability to significantly influence operations of these organizations. Separate financial statements of the DDA/TIFA III have not been prepared. Separate financial statements of the EDC are available at Economic Development Corporation, 1301 W. Easterday, Sault Ste. Marie, MI 49783. Separate financial statements of the Library are available at Bayliss Public Library, 541 Library Drive, Sault Ste. Marie, MI 49783.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Fund Financial Statements. The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* accounts for the use of motor fuel taxes which are restricted by State statute for major street and highway purposes.

The *Local Street Fund* accounts for the use of motor fuel taxes which are restricted by State statute for local street and highway purposes.

The *Capital Projects Fund* accounts for the activity related to the City's new parking deck and various other projects.

The *Capital Outlay Fund* accounts for the repair, maintenance and construction of the City's infrastructure.

The *CSO Phase D Fund* accounts for the repair, maintenance and construction of the City's infrastructure.

The City reports the following major enterprise funds:

The *Water and Sewer Fund* accounts for the operation, maintenance and development of water and sewer facilities.

Additionally, the City reports the following fund types:

Special Revenue Funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Debt Service Funds. These funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Capital Projects Funds. These funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

Permanent Funds. The Seal Trust, Governor Osborn Trust, and Cemetery Perpetual Care Trust are the City's Permanent Funds. The principal portion of these funds must stay intact, but the interest earnings are used to provide for purposes defined by each trust.

Enterprise Funds. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds. These funds account for operations that provide machinery and equipment to other departments of the City on a cost-reimbursement basis.

Pension Trust Fund. This fund accounts for the activities of the City's employee retirement system, which accumulates resources for retirement benefit payments to qualified employees.

Agency Fund. This fund accounts for assets held for other governments and employees in an agency capacity.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation.

Government-wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Property taxes, state revenue and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principle operating revenues of the City's enterprise and internal service funds, charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and investments

Most cash balances in the various funds are pooled and invested in money market accounts, Municipal Investment accounts and U.S. Government Securities and Treasury Notes. Interest earned with pooled cash is allocated to each of the funds based on the fund's average equity balance. Each fund's portion of the investment pool is displayed on the statement of net assets/balance sheet as "Cash and cash equivalents" and "Investments." The cash resources of the debt service and trust and agency funds are invested separately as required by law.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorizes the City to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

The City's investments during the year consisted of certificate of deposits and an employer benefit plan for pension trust investments.

2. Receivables and payables

All receivables are reported at their gross value, except the General Fund ambulance receivable which is shown net of an estimated allowance for uncollectible accounts of \$181,041.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

3. *Property taxes*

The City's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Chippewa County. Assessed values, as established annually by the City and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value.

Property taxes are recognized in the fiscal year in which they are levied.

4. *Inventories*

All inventories are valued at cost using the first-in/first-out (FIFO) method.

5. *Restricted assets*

Certain resources are set aside for repayment of the City's Water and Sewer Enterprise Fund revenue bonds and are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable bond covenants.

6. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	10-15
Marina	7-40
Buildings and building improvements	15-40
Public domain infrastructure	10-50
Water and wastewater system infrastructure	20-75
Vehicles	5-20
Machinery and equipment	5-25

7. *Compensated absences*

It is the City's policy to permit employees to accumulate earned but unused sick and vacation time benefits, subject to certain limitations. All sick and vacation time pay is accrued when incurred in the government-wide statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

8. *Long-term obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental funds report the face amount of debt issued as other financing sources.

9. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General and special revenue funds. All annual appropriations lapse at fiscal year end.

3. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Summary of Deposit and Investment Balances. Following is a reconciliation of deposit and investment balances as of June 30, 2005:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Total</u>
Statement of Net Assets			
Cash and cash equivalents	\$ 15,477,404	\$ 2,056,228	\$17,533,632
Investments	-	397,997	397,997
Restricted cash and cash equivalents	4,477,354	-	4,477,354
Restricted investments	<u>7,931,091</u>	<u>154,849</u>	<u>8,085,940</u>
Total Statement of Net Assets	<u>\$ 27,885,849</u>	<u>\$ 2,609,074</u>	<u>30,494,923</u>
Statement of Fiduciary Net Assets			
Cash and cash equivalents			106,744
Restricted cash and cash equivalents			384,505
Restricted investments			<u>11,212,426</u>
Total deposits and investments			<u>\$42,198,598</u>

A reconciliation of cash and cash equivalents and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets as follows:

Bank deposits (checking accounts, savings accounts and CDs)	\$24,328,106
Investments	17,868,517
Cash on hand	<u>1,975</u>
Total deposits	<u>\$42,198,598</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

The City is authorized by state statutes to invest surplus funds in the following:

- (a) Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- (c) Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- (d) In banker's acceptances of United States banks.
- (e) Obligations of the State of Michigan and its political subdivisions that, at the time of purchase, are rated as investment grade by at least one standard rating service.
- (f) Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- (g) External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The City investment policy allows for all of these types of investments.

The City chooses to aggregate its investments for disclosure purposes. As of year end, the City had the following deposits and investments:

Investments at fair value, as determined by quoted market price

U.S. Government securities	\$ 2,732,647
Corporate bonds	5,904,918
Money Market Fund	1,815,322
Equity securities	<u>7,415,630</u>
Total investments	<u>\$ 17,868,517</u>

Certificates of deposit of \$1,827,846 are considered bank deposits for risk purposes.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

	<u>Investment Maturities (fair value by years)</u>				
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
U.S. Government securities	\$2,732,647	\$ 703,172	\$ -	\$ 110,030	\$1,919,445
Corporate bonds	<u>5,904,918</u>	<u>5,453,377</u>	<u>82,169</u>	<u>470,013</u>	<u>299,359</u>
Total	<u>\$8,637,565</u>	<u>\$6,156,549</u>	<u>\$ 82,169</u>	<u>\$ 580,043</u>	<u>\$2,218,804</u>

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for investments are identified as follows for investments held at year end.

AAA	\$ 8,203,032
A+	127,930
A	149,251
A-	5,935
BBB	151,417
Not rated	<u>9,230,952</u>
	<u>\$ 17,868,517</u>

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, \$22,567,381 of the City's bank balance of \$22,967,381 was exposed to custodial credit risk because it was uninsured and uncollateralized.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterpart the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk, as these investments are uncategorized as to credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

B. Receivables

The composition of receivables is as follows as of June 30, 2005:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Units</u>
Accounts receivable	\$ 615,992	\$ 513,913	\$ 21,896
Special assessment receivable, due within one year	414,000	30,000	16,000
Special assessment receivable, due in more than one year	2,381,469	94,121	10,357
Taxes receivable	4,515,969	-	-
Due from other governmental units	<u>902,116</u>	<u>-</u>	<u>-</u>
Total receivables, net	<u>\$ 8,829,546</u>	<u>\$ 638,034</u>	<u>\$ 48,253</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, *deferred revenue* reported in the governmental funds was \$7,311,438.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

C. Capital assets

Capital assets activity was as follows for the year ended June 30, 2005:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,565,906	\$ -	\$ -	\$ 1,565,906
Construction-in-process (as restated)	<u>1,973,594</u>	<u>3,306,398</u>	<u>(1,686,072)</u>	<u>3,593,920</u>
Total non-depreciated assets	<u>3,539,500</u>	<u>3,306,398</u>	<u>(1,686,072)</u>	<u>5,159,826</u>
Capital assets being depreciated				
Buildings	6,055,715	90,990	-	6,146,705
Land improvements	3,386,047	-	-	3,386,047
Equipment	6,773,182	171,769	-	6,944,951
Infrastructure (as restated)	<u>41,174,265</u>	<u>2,502,084</u>	<u>-</u>	<u>43,676,349</u>
Total capital assets being depreciated	<u>57,389,209</u>	<u>2,764,843</u>	<u>-</u>	<u>60,154,052</u>
Less accumulated depreciation for				
Buildings	(2,163,459)	(229,023)	-	(2,392,482)
Land improvements	(494,687)	(125,596)	-	(620,283)
Equipment	(4,089,609)	(474,473)	-	(4,564,082)
Infrastructure	<u>(15,480,526)</u>	<u>(1,665,211)</u>	<u>-</u>	<u>(17,145,737)</u>
Total accumulated depreciation	<u>(22,228,281)</u>	<u>(2,494,303)</u>	<u>-</u>	<u>(24,722,584)</u>
Total capital assets being depreciated, net (as restated)	<u>35,160,928</u>	<u>270,540</u>	<u>-</u>	<u>35,431,468</u>
Governmental activities capital assets, net (as restated)	<u>\$ 38,700,428</u>	<u>\$ 3,449,376</u>	<u>\$ (1,686,072)</u>	<u>\$ 40,591,294</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets not being depreciated				
Land	\$ 164,243	\$ -	\$ -	\$ 164,243
Construction-in-progress	<u>5,420,549</u>	<u>-</u>	<u>(5,420,549)</u>	<u>-</u>
Total non-depreciated assets	<u>5,584,792</u>	<u>-</u>	<u>(5,420,549)</u>	<u>164,243</u>
Capital assets being depreciated				
Buildings and improvements	16,617,868	-	-	16,617,868
Equipment	2,389,631	60,696	-	2,450,327
Water and sewer	<u>30,843,941</u>	<u>8,267,328</u>	<u>-</u>	<u>39,111,269</u>
Total capital assets being depreciated	<u>49,851,440</u>	<u>8,328,024</u>	<u>-</u>	<u>58,179,464</u>
Less accumulated depreciation for				
Buildings and improvements	(8,235,183)	(230,845)	-	(8,466,028)
Equipment	(1,256,808)	(71,214)	-	(1,328,022)
Water and sewer	<u>(6,328,090)</u>	<u>(635,526)</u>	<u>-</u>	<u>(6,963,616)</u>
Total accumulated depreciation	<u>(15,820,081)</u>	<u>(937,585)</u>	<u>-</u>	<u>(16,757,666)</u>
Total capital assets being depreciated, net	<u>34,031,359</u>	<u>7,390,439</u>	<u>-</u>	<u>41,421,798</u>
Business-type activities capital assets, net	<u>\$ 39,616,151</u>	<u>\$ 7,390,439</u>	<u>\$ (5,420,549)</u>	<u>\$ 41,586,041</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities

General government	\$ 26,312
Public safety	131,666
Public works	1,710,081
Recreation and culture	389,547
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	<u>236,697</u>

Total depreciation expense – governmental activities \$ 2,494,303

Business-type activities

Water and sewer	\$ 933,894
Parking	<u>3,691</u>

Total depreciation expense – business-type activities \$ 937,585

Component Unit – Economic Development Corporation

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Capital assets being depreciated				
Vehicles	15,771	-	-	15,771
Equipment	<u>12,454</u>	<u>-</u>	<u>-</u>	<u>12,454</u>
Subtotal	<u>28,225</u>	<u>-</u>	<u>-</u>	<u>28,225</u>
Accumulated depreciation				
Vehicles	(6,308)	(3,154)	-	(9,462)
Equipment	<u>(11,863)</u>	<u>(295)</u>	<u>-</u>	<u>(12,158)</u>
Total accumulated depreciation	<u>(18,171)</u>	<u>(3,449)</u>	<u>-</u>	<u>(21,620)</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated, net	\$ 10,045	\$ (3,449)	\$ -	\$ 6,605
Component Unit - EDC capital assets, net	<u>\$ 30,054</u>	<u>\$ (3,449)</u>	<u>\$ -</u>	<u>\$ 26,605</u>
<u>Component Unit – Bayliss Public Library</u>				
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 22,822	\$ -	\$ -	\$ 22,822
Capital assets being depreciated				
Buildings	474,260	-	-	474,260
Land improvements	15,250	-	-	15,250
Furniture and equipment	430,437	18,670	(280,706)	168,401
Book collection	<u>1,937,944</u>	<u>27,232</u>	<u>(1,695,848)</u>	<u>269,328</u>
Total capital assets being depreciated	<u>2,857,891</u>	<u>45,902</u>	<u>(1,976,554)</u>	<u>927,239</u>
Less accumulated depreciation for				
Buildings	(337,910)	(11,857)	-	(349,767)
Land improvements	(15,250)	-	-	(15,250)
Furniture and equipment	(380,191)	(26,801)	280,706	(126,286)
Book collection	<u>(1,875,078)</u>	<u>(36,531)</u>	<u>1,695,848</u>	<u>(215,761)</u>
Total accumulated depreciation	<u>(2,608,429)</u>	<u>(75,189)</u>	<u>1,976,554</u>	<u>(707,064)</u>
Total capital assets being depreciated, net	<u>249,462</u>	<u>(29,287)</u>	<u>-</u>	<u>220,175</u>
Component Unit - Library capital assets, net	<u>\$ 272,284</u>	<u>\$ (29,287)</u>	<u>\$ -</u>	<u>\$ 242,997</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

D. Accounts payable and accrued expenses

The composition of accounts payable and accrued expenses is as follows as of June 30, 2005:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Units</u>
Accounts payable	\$ 1,234,359	\$ 30,139	\$ 202,286
Accrued expenses	<u>142,931</u>	<u>658,096</u>	<u>8,941</u>
Total accounts payables and accrued expenses	<u>\$ 1,377,290</u>	<u>\$ 688,235</u>	<u>\$ 211,227</u>

E. Interfund receivables, payables and transfers

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. In addition, certain amounts are reported as internal balances in the statement of net assets relative to the elimination of the Internal Service Fund.

Interfund transfers consisted of the following for the year ended June 30, 2005:

	<u>Transfers out</u>				<u>Subtotal Transfers In</u>
	<u>General Fund</u>	<u>Local Street</u>	<u>Capital Projects</u>	<u>Capital Outlay</u>	
<u>Transfers in</u>					
General Fund	\$ -	\$ -	\$ -	\$ 70,451	\$ 70,451
Major Street	1,267	-	-	50,000	51,267
Local Street	1,184,570	-	-	23,000	1,207,570
Capital Projects	5,146				5,146
Capital Outlay	-	200,000	-	-	200,000
Water and Sewer	573,695	-	14,394	48,470	636,559
Nonmajor					
governmental funds	52,401	-	-	-	52,401
Nonmajor					
enterprise funds	<u>-</u>	<u>-</u>	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Subtotal transfers out	<u>\$ 1,817,079</u>	<u>\$ 200,000</u>	<u>\$ 19,394</u>	<u>\$ 191,921</u>	<u>\$ 2,228,394</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	Transfers out			Subtotal Transfers In
	Water and Sewer	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	
<u>Transfers in</u>				
General Fund	\$ -	\$ 11,759	\$ 10,000	\$ 21,759
Local Street	-	300,000	-	300,000
Capital Outlay	100,346	188,451	-	288,797
Water and Sewer	-	141,500	105,000	246,500
Nonmajor				
governmental funds	-	71,666	-	71,666
Nonmajor				
enterprise funds	213,700	12,000	-	225,700
Internal service funds	<u>42,385</u>	<u>-</u>	<u>-</u>	<u>42,385</u>
Subtotal				
transfers out	<u>\$ 356,431</u>	<u>\$ 725,376</u>	<u>\$ 115,000</u>	<u>\$ 1,196,807</u>

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them, (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

F. Long-term debt

A summary of long-term debt and transactions related thereto is as follows for the year ended June 30, 2005:

Balance July 1, 2004	Additions	(Reductions)	Balance June 30, 2005	Due Within 1 Year
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Primary Government

Governmental activities

2005 General Obligation Limited Tax Bonds maturing serially to 2016 in annual installments beginning November 2006 ranging from \$50,000 to \$175,000 bearing interest ranging from 2.3% to 3.75%.

\$ -	\$ 1,500,000	\$ -	\$ 1,500,000	\$ -
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CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2005</u>	<u>Due Within 1 Year</u>
2005 Downtown Development Bonds maturing serially to 2027 in annual installments beginning November 2006 ranging from \$80,000 to \$565,000 bearing interest ranging from 4.25% to 4.40%.	\$ -	\$ 6,000,000	\$ -	\$ 6,000,000	\$ -
2000 Michigan Transportation Authority Bonds maturing serially to 2015 in annual installments ranging from \$5,000 to \$160,000 and bearing interest ranging from 5.0% to 5.3%.	735,000	-	(5,000)	730,000	5,000
1997 Building Authority Bonds maturing serially to 2015 in annual installments ranging from \$35,000 to \$70,000 and bearing interest ranging from 5.0% to 5.50%.	620,000	-	(35,000)	585,000	40,000
1997 Michigan Transportation Authority Bonds maturing serially to 2012 in annual installments ranging from \$40,000 to \$95,000 and bearing interest ranging from 5.0% to 5.3%.	580,000	-	(40,000)	540,000	45,000
1994 Recreational Building Authority note maturing serially to 2019 in annual installments of \$35,000 including interest at 5.38%.	354,289	-	(21,432)	332,857	16,809

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2005</u>	<u>Due Within 1 Year</u>
1991 Michigan Transportation Fund Bonds maturing serially to 2006 in annual installments of \$75,000 and bearing interest ranging from 6.3% to 6.5%.	\$ 225,000	\$ -	\$ (75,000)	\$ 150,000	\$ 75,000
2004 Building Authority Note maturing in 2009 with monthly installments of \$230 including interest at 3.494%.	12,730	-	(2,369)	10,361	2,436
CDBG non-interest bearing loan, due in annual installments for 10 years beginning July 1, 2005.	395,000	-	-	395,000	29,625
1994 Limited Tax General Obligation Downtown Development Bonds maturing serially to 2007 in annual installments of \$185,000 to \$245,000 and bearing interest ranging from 5.7% to 5.9%.	645,000	-	(185,000)	460,000	215,000
1991 Limited Tax General Obligation Downtown Development Bonds maturing serially to 2006 in annual installments of \$50,000 and bearing interest ranging from 6.70% to 6.90%.	150,000	-	(50,000)	100,000	50,000
1989 non-interest bearing Land Contract maturing in 2006 with annual payments of \$15,600.	31,200	-	(15,600)	15,600	15,600

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2005</u>	<u>Due Within 1 Year</u>
1994 Tax Increment Financing Authority Bonds maturing serially to 2007 in annual installments ranging from \$70,000 to \$85,000 and bearing interest ranging from 5.9 0% to 6.10%.	\$ 230,000	\$ -	\$ (70,000)	\$ 160,000	\$ 75,000
1990 Michigan Transportation Fund Bonds matured during 2005.	<u>80,000</u>	<u>-</u>	<u>(80,000)</u>	<u>-</u>	<u>-</u>
Subtotal	4,058,219	7,500,000	(579,401)	10,978,818	569,470
Accrued compensated absences	<u>277,567</u>	<u>-</u>	<u>(5,826)</u>	<u>271,741</u>	<u>1,834</u>
Total governmental activities	<u>\$4,335,786</u>	<u>\$ 7,500,000</u>	<u>\$ (585,227)</u>	<u>\$11,250,559</u>	<u>\$ 571,304</u>
Business-type activities					
1998 State Drinking Water Revolving Fund Loan maturing serially to 2020 in annual installments ranging from \$180,000 to \$260,000 and bearing interest at 2.5%	\$ 3,485,000	\$ -	\$ (180,000)	\$ 3,305,000	\$ 185,000
2002 General Obligation Limited Tax Bonds maturing serially to 2023 in annual installments ranging from \$40,000 to \$325,000 and bearing interest ranging from 3.0% to 5.25%.	3,435,000	-	(40,000)	3,395,000	45,000

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2005</u>	<u>Due Within 1 Year</u>
2002 General Obligation Unlimited Tax Refunding Bonds maturing serially to 2010 in annual installments ranging from \$50,000 to \$705,000 and bearing interest ranging from 3.75% to 4.5%	\$ 3,340,000	\$ -	\$ (55,000)	\$ 3,285,000	\$ 50,000
1998 State Revolving Fund Combined Sewer Overflow (CSO) Loan maturing serially to 2020 in annual installments ranging from \$165,000 to \$230,000 and bearing interest at 2.25%.	3,177,230	-	(165,000)	3,012,230	170,000
1995 State Revolving Fund CSO Loan maturing serially to 2017 in annual installments ranging from \$180,000 to \$230,000 and bearing interest at 2.25%.	2,665,000	-	(180,000)	2,485,000	180,000
1998 Water Supply and Sewage Disposal System Limited Tax General Obligation Bonds maturing serially to 2018 in annual installments ranging from \$90,000 to \$450,000 and bearing interest ranging from 3.70% to 4.25%.	2,540,000	-	(90,000)	2,450,000	100,000

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2005</u>	<u>Due Within 1 Year</u>
2001 Water Supply and Sewer System Limited Tax General Obligation Bonds maturing serially to 2022 in annual installments ranging from \$65,000 to \$260,000 and bearing interest ranging from 3.50% to 5.00%.	\$ 2,540,000	\$ -	\$ (65,000)	\$ 2,475,000	\$ 65,000
1995 Water Supply and Sewage Disposal System Limited Tax General Obligation Bonds maturing serially to 2015 in annual installments ranging from \$150,000 to \$280,000 and bearing interest at 5.0%.	2,505,000	-	(150,000)	2,355,000	165,000
2002 Clean Water Program State Revolving Fund CSO General Obligation Limited Tax Sewage Disposal System Bonds maturing serially to 2023 in annual installments ranging from \$135,000 to \$200,000 and bearing interest at 2.5%.	2,095,586	943,954	(135,000)	2,904,540	135,000
2003 Drinking Water Revolving Fund Program General Obligation Limited Tax Water Supply System Improvement Revenue Bonds maturing serially to 2024 in annual installments ranging from \$125,000 to \$195,000 and bearing interest at 2.5%.	1,934,235	1,019,687	(125,000)	2,828,922	125,000

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2005</u>	<u>Due Within 1 Year</u>
2001 Drinking Water Revolving Fund Program General Obligation Limited Tax Water Supply System Improvement Revenue Bonds maturing serially to 2023 in annual installments ranging from \$75,000 to \$110,000 and bearing interest at 2.5%.	\$ 1,730,000	\$ -	\$ (79,393)	\$ 1,650,607	\$ 75,000
1997 Limited Tax General Obligation Bonds maturing serially to 2017 in annual installments ranging from \$30,000 to \$65,000 and bearing interest ranging from 4.70% to 5.30%.	640,000	-	(30,000)	610,000	35,000
1997 State Water Pollution Control Revolving Fund Limited Tax General Obligation Bonds maturing serially to 2018 in annual installments ranging from \$25,000 to \$35,000 and bearing interest at 2.25%.	490,000	-	(25,000)	465,000	30,000
1990 General Obligation Unlimited Tax Water Intake Facilities Capital Appreciation Bonds maturing serially to 2005 in installments ranging from \$216,159 to \$235,139 and bearing interest from 7.40% to 7.50%.	<u>451,298</u>	<u>-</u>	<u>(235,139)</u>	<u>216,159</u>	<u>216,159</u>
Subtotal	31,028,349	1,963,641	(1,554,532)	31,437,458	1,576,159

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2005</u>	<u>Due Within 1 Year</u>
Accrued compensated absences	\$ 61,510	\$ -	\$ (7,187)	\$ 54,323	\$ -
Total business-type activities	<u>\$31,089,859</u>	<u>\$1,963,641</u>	<u>\$(1,561,719)</u>	<u>\$31,491,781</u>	<u>\$1,576,159</u>

Component Units

Economic Development Corporation

Accrued compensated absences	<u>\$ 8,152</u>	<u>\$ -</u>	<u>\$ (1,767)</u>	<u>\$ 6,385</u>	<u>\$ -</u>
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Bayliss Public Library

Accrued compensated absences	<u>\$ 22,077</u>	<u>\$ -</u>	<u>\$ (2,436)</u>	<u>\$ 19,641</u>	<u>\$ -</u>
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Accrued compensated absences are generally liquidated by the General Fund for governmental activities, the Water and Sewer Fund for the business-type activities and the Economic Development Corporation and Bayliss Public Library for the component units.

Annual debt service requirements to maturity for the above obligations except for accrued compensated absences are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 569,470	\$ 470,547	\$ 1,576,159	\$ 1,344,440
2007	759,735	427,263	1,930,000	989,397
2008	405,762	400,233	2,010,000	922,505
2009	441,975	384,706	2,085,000	852,686
2010	525,228	366,711	2,150,000	779,050
2011-2015	3,079,117	1,480,928	9,210,000	2,901,519
2016-2020	1,977,531	899,542	9,042,230	1,401,392
2021-2025	2,125,000	486,680	3,434,069	222,021
2026-2027	<u>1,095,000</u>	<u>48,950</u>	<u>-</u>	<u>-</u>
	<u>\$ 10,978,818</u>	<u>\$ 4,965,560</u>	<u>\$ 31,437,458</u>	<u>\$ 9,413,010</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Total interest expense for the City for the year ending June 30, 2005 was \$1,559,262.

4. OTHER INFORMATION

A. Defined Benefit Pension Plan

Primary Government

Plan Description

The City's defined benefit pension plan provides retirement, death and disability benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rate ranges from 0.00% to 3.34% of annual covered payroll. City employees currently make no contribution to the Plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

Annual Pension Cost

The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) additional projected salary increases up to 4.2% per year, depending on age, attributable to seniority/merit, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's overfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the last actuarial valuation, was 30 years.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/03	\$ 113,323	100%	\$ -
6/30/04	119,400	100%	-
6/30/05	143,911	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) -Entry Age (b)</u>	<u>Over-funded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/00	\$16,694,480	\$ 15,878,641	\$ 815,839	105%	\$ 3,741,740	0%
12/31/01	17,481,855	15,814,445	1,667,410	111%	3,468,584	0%
12/31/02	17,503,766	17,447,662	56,104	100%	3,670,545	0%
12/31/03	18,223,939	18,105,810	118,129	101%	3,945,779	0%
12/31/04	18,890,155	19,779,167	(889,012)	96%	3,611,570	25%

Fire and Police Department Pension and Retirement Plan (Act 345)

Plan Description

The City of Sault Ste. Marie contributes to the City of Sault Ste. Marie Act 345 Retirement System, a single employer, contributory defined benefit pension plan.

Substantially, all full-time Fire and Police Department employees are eligible to participate in the system. Benefits vest after ten years of service. Fire Department employees who retire at age 50 with 25 or more years of service or age 60 regardless of years of service are entitled to retirement benefits equal to 2.8% of three-year average final compensation times the first 25 years of credited service plus 1% of average compensation for each year in excess of 25 years of service. Police employees who retire with 20 years of service or age 60, regardless of years of service, are entitled to retirement benefits equal to 2.6% of three-year average final compensation for each year in excess of 25 years of service.

A post-retirement benefit increase of 2% and 1% respectively, times the number of full years retired for persons retired prior and subsequent to July 1, 1976 respectively, was made effective July 1, 1999. The Plan does not include provisions for other early retirement. Mandatory retirement occurs at age 65.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

The system also provides death and disability benefits paid until death, which is, computed in the same manner as the retirement benefit at age 55, reduced to 1.5% of average final compensation for non-duty disability. The duty disability benefit is 50% of average final compensation.

If an employee terminates his or her employment with the Police or Fire Departments and is not eligible for any other benefits under the Plan, the employee is entitled to receive a refund of his or her accumulated contribution plus interest.

Funding Policy

Covered employees contribute 5.6% (Firefighters and Police Sergeants) to 7.5% (Police Patrol) of their annual compensation. The City is required to contribute the remaining amounts necessary to fund the system, using the actuarial basis specified by statute.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/03	\$ 530,498	100%	\$ -
6/30/04	615,959	100%	-
6/30/05	696,387	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u>	<u>Under-funded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
6/30/00	\$ 12,106,796	\$15,986,238	\$3,879,442	76%	\$ 2,087,163	186%
6/30/01	12,323,362	16,519,263	4,195,901	75%	2,215,948	189%
6/30/02	12,198,649	17,439,131	5,240,482	70%	2,157,743	243%
6/30/03	11,819,254	19,043,533	7,224,279	62%	2,279,757	317%
6/30/04	11,600,524	19,529,555	7,929,031	59%	2,267,876	350%

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Bayliss Public Library -Component Unit

Plan Description

Bayliss Public Library's (a component unit of the City of Sault Ste. Marie, Michigan), (the "Library") defined benefit pension plan provides retirement, death and disability benefits to plan members and beneficiaries. The Library participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The Library is required to contribute at an actuarially determined rate. The Library is currently required to make no contributions to the Plan. Library employees are also currently not required to make contributions. The contribution requirements of the Library are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Library, depending on the MERS contribution program adopted by the Library.

Annual Pension Cost

The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) additional projected salary increases up to 4.2% per year, depending on age, attributable to seniority/merit, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Library's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2003, the date of the last actuarial valuation, was 30 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/03	\$ -	0%	\$ -
6/30/04	-	0%	-
6/30/05	-	0%	-

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Over- funded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/00	\$ 977,093	\$ 734,984	\$ 242,108	132%	\$ 165,026	0%
12/31/01	1,022,077	769,629	252,448	133%	173,026	0%
12/31/02	1,017,843	812,901	204,942	125%	150,842	0%
12/31/03	986,076	553,784	432,292	178%	140,820	0%
12/31/04	1,026,782	522,890	503,892	196%	184,224	0%

B. Commitments and Contingencies

The City received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at June 30, 2005.

The City leases, under operating lease arrangements, administrative office space and various parcels of land for use as parking lots. The City is also responsible for maintenance and operating expense relating to the property. In addition, the City has entered into an agreement with the Sault Ste. Marie Country Club whereby the club leases the golf course from the City for an annual lease fee which is equivalent to the City's required \$35,000 payment to the Building Authority to retire its \$475,000 note payable.

The City also leases maintenance equipment to the Sault Ste. Marie Country Club whereby the Club leases the equipment from the City for an annual lease fee, which is equivalent to the City's required \$19,058 payment to retire the \$82,419 note payable.

In accordance with an agreement, Chippewa County annually purchases real property taxes and delinquent special assessments (included on the tax bills), which have not been paid as of March 1 from the City. The County has recourse against the City for amounts which remain unpaid.

The City is involved in various lawsuits now pending. It is the opinion of the City and of its counsel that the outcome of the various lawsuits will not materially affect the operations or the financial position of the City. The amount of all legal costs relating to such actions is not currently determinable.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

The City's public works and fire personnel union contract expired June 30, 2004. The City is still in negotiations with these unions and the effect these final contracts will have on the June 30, 2005 financial statements cannot be estimated.

The City began a \$7,000,000 parking deck construction project which will be funded through bonds that were issued during fiscal 2005 and local contributions. As of June 30, 2005, the City had spent approximately \$600,000. The City expects the parking deck to be completed during fiscal 2006.

C. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's current liability and property insurance is through Municipal Underwriters of Michigan representing Gulf Insurance Group.

The City continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

D. Prior Period Adjustments

Fund Financial Statements

	<u>General Fund</u>	<u>2001 DWRF/ SRF Project</u>	<u>Seal Estate Activities</u>	<u>Water and Sewer</u>	<u>EDC</u>
Fund balances, beginning of year, as previously reported	\$ 1,898,309	\$ 325,981	\$ 1,262,565	\$15,308,580	\$ 443,664
Error in recording reconciling items	55,000	168,278	-	618,909	-
Error in recording investments at fair value	-	-	175,166	-	-
Error in recording receivable allowance	-	-	-	-	4,350
Fund balances, end of year, as restated	<u>\$ 1,953,309</u>	<u>\$ 494,259</u>	<u>\$ 1,437,731</u>	<u>\$15,927,489</u>	<u>\$ 448,014</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Government-wide Financial Statements

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>EDC Component Unit</u>
Net assets, beginning of year, as previously reported	\$46,561,155	\$16,720,230	\$ 465,566
Error in recording reconciling items	223,278	618,909	-
Error in recording investments at fair value	175,166	-	-
Error in recording construction-in-process	2,665,405		
Error in recording receivable allowance	<u>-</u>	<u>-</u>	<u>4,350</u>
Net assets, end of year, as restated	<u>\$49,625,004</u>	<u>\$17,339,139</u>	<u>\$ 469,916</u>

SUPPLEMENTARY INFORMATION

CITY OF SAULT STE. MARIE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2005

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Permanent Funds	Total
ASSETS					
Cash and cash equivalents	\$ 646,869	\$ -	\$ 4,046,286	\$ 290,409	\$ 4,983,564
Restricted investments	-	-	-	2,477,714	2,477,714
Accounts receivable	5,351	-	49,519	-	54,870
Due from other governmental units	12,435	-	-	-	12,435
Special assessment receivable	-	-	406,703	-	406,703
Total assets	\$ 664,655	\$ -	\$ 4,502,508	\$ 2,768,123	\$ 7,935,286
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 17,253	\$ -	\$ 668,940	\$ -	\$ 686,193
Accrued expenses	44,835	-	-	-	44,835
Deferred revenue	-	-	406,703	-	406,703
Total liabilities	62,088	-	1,075,643	-	1,137,731
Fund balances					
Reserved	-	-	-	2,768,123	2,768,123
Unreserved					
Designated	194,212	-	3,426,865	-	3,621,077
Undesignated	408,355	-	-	-	408,355
Total fund balances	602,567	-	3,426,865	2,768,123	6,797,555
Total liabilities and fund balances	\$ 664,655	\$ -	\$ 4,502,508	\$ 2,768,123	\$ 7,935,286

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Permanent Funds	Total
Revenues					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	130,463	-	130,463
Local sources	344,500	373,073	27,097	-	744,670
Charges for services	592	-	-	3,838	4,430
Rental	-	-	78,600	-	78,600
Interest	7,243	-	81,089	94,436	182,768
Miscellaneous	8,982	-	-	-	8,982
Total revenues	361,317	373,073	317,249	98,274	1,149,913
Expenditures					
Current					
Culture and recreation	9,856	-	-	-	9,856
Public works	-	-	142,402	-	142,402
Other	10,000	-	-	-	10,000
Capital outlay	-	-	23,453	-	23,453
Debt service					
Principal retirement	-	320,600	-	-	320,600
Interest and fiscal charges	-	52,473	-	-	52,473
Total expenditures	19,856	373,073	165,855	-	558,784
Revenues over (under) expenditures	341,461	-	151,394	98,274	591,129
Other financing sources (uses)					
Net appreciation in fair value of investments	-	-	-	134,436	134,436
Transfers in	71,666	-	52,401	-	124,067
Transfers out	(508,292)	-	(141,500)	(75,584)	(725,376)
Total other financing sources (uses)	(436,626)	-	(89,099)	58,852	(466,873)
Net change in fund balances	(95,165)	-	62,295	157,126	124,256
Fund balances, beginning of year, as previously reported	697,732	-	3,196,292	2,435,831	6,329,855
Prior period adjustment	-	-	168,278	175,166	343,444
Fund balances, beginning of year, as restated	697,732	-	3,364,570	2,610,997	6,673,299
Fund balances, end of year	\$ 602,567	\$ -	\$ 3,426,865	\$ 2,768,123	\$ 6,797,555

CITY OF SAULT STE MARIE
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS

JUNE 30, 2005

ASSETS	Seal Trust Operations	Osborn Trust Operations	Gaming Compact	Project Park
Cash and cash equivalents	\$ 336,160	\$ 35,761	\$ -	\$ 35,836
Accounts receivable	-	-	-	-
Due from other governmental units	-	-	-	-
Total assets	\$ 336,160	\$ 35,761	\$ -	\$ 35,836
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 2,100	\$ 2,653	\$ -	\$ -
Accrued expenses	-	-	-	-
Total liabilities	2,100	2,653	-	-
Fund balances				
Unreserved				
Designated	-	-	-	-
Undesignated	334,060	33,108	-	35,836
Total fund balances	334,060	33,108	-	35,836
Total liabilities and fund balances	\$ 336,160	\$ 35,761	\$ -	\$ 35,836

Special Bridge Maintenance	Industrial Park Site Assessment	1992 Housing Development	Housing	Other Special Revenues	Total Nonmajor Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ 239,112	\$ 646,869
-	-	5,351	-	-	5,351
-	12,435	-	-	-	12,435
\$ -	\$ 12,435	\$ 5,351	\$ -	\$ 239,112	\$ 664,655
\$ -	\$ 12,435	\$ -	\$ -	\$ 65	\$ 17,253
-	-	-	-	44,835	44,835
-	12,435	-	-	44,900	62,088
-	-	-	-	194,212	194,212
-	-	5,351	-	-	408,355
-	-	5,351	-	194,212	602,567
\$ -	\$ 12,435	\$ 5,351	\$ -	\$ 239,112	\$ 664,655

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Seal Trust Operations	Osborn Trust Operations	Gaming Compact	Project Park
Revenues				
Local sources	\$ -	\$ -	\$ 312,000	\$ 32,500
Charges for services	592	-	-	-
Interest	5,528	719	-	28
Miscellaneous	-	-	-	-
Total revenues	6,120	719	312,000	32,528
Expenditures				
Culture and recreation	4,300	5,056	-	500
Other expenditures	-	-	-	-
Total expenditures	4,300	5,056	-	500
Revenues over (under) expenditures	1,820	(4,337)	312,000	32,028
Other financing sources (uses)				
Transfers in	61,484	10,182	-	-
Transfers out	-	(3,141)	(312,000)	-
Total other financing sources (uses)	61,484	7,041	(312,000)	-
Net change in fund balances	63,304	2,704	-	32,028
Fund balances, beginning of year	270,756	30,404	-	3,808
Fund balances, end of year	\$ 334,060	\$ 33,108	\$ -	\$ 35,836

Special Bridge Maintenance	Industrial Park Site Assessment	1992 Housing Development	Housing	Other Special Revenues	Total Nonmajor Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 344,500
-	-	-	-	-	592
968	-	-	-	-	7,243
-	-	-	-	8,982	8,982
968	-	-	-	8,982	361,317
-	-	-	-	-	9,856
-	-	-	-	10,000	10,000
-	-	-	-	10,000	19,856
968	-	-	-	(1,018)	341,461
-	-	-	-	-	71,666
(168,491)	-	-	-	(24,660)	(508,292)
(168,491)	-	-	-	(24,660)	(436,626)
(167,523)	-	-	-	(25,678)	(95,165)
167,523	-	5,351	-	219,890	697,732
\$ -	\$ -	\$ 5,351	\$ -	\$ 194,212	\$ 602,567

CITY OF SAULT STE. MARIE
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECT FUNDS

JUNE 30, 2005

ASSETS	Lakeshore Subdivision	Ashmun Street Project	CSO	CSO Phase B
Cash and cash equivalents	\$ 5,700	\$ 56,383	\$ 944,261	\$ 1,006,434
Accounts receivable	-	-	-	-
Special assessment receivable	-	-	58,161	218,897
Total assets	\$ 5,700	\$ 56,383	\$ 1,002,422	\$ 1,225,331
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ 655,243
Deferred revenue	-	-	58,161	218,897
Total liabilities	-	-	58,161	874,140
Fund balances				
Unreserved, designated	5,700	56,383	944,261	351,191
Total fund balances	5,700	56,383	944,261	351,191
Total liabilities and fund balances	\$ 5,700	\$ 56,383	\$ 1,002,422	\$ 1,225,331

Public Works Building	2001 DWRF/SRF Project	City County Building	Total Nonmajor Capital Project Funds
\$ 1,459,347	\$ 538,883	\$ 35,278	\$ 4,046,286
-	180	49,339	49,519
-	129,645	-	406,703
\$ 1,459,347	\$ 668,708	\$ 84,617	\$ 4,502,508
\$ 79	\$ -	\$ 13,618	\$ 668,940
-	129,645	-	406,703
79	129,645	13,618	1,075,643
1,459,268	539,063	70,999	3,426,865
1,459,268	539,063	70,999	3,426,865
\$ 1,459,347	\$ 668,708	\$ 84,617	\$ 4,502,508

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECT FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Lakeshore Subdivision	Ashmun Street Project	CSO	CSO Phase B
Revenues				
Special assessments	\$ -	\$ -	\$ 28,950	\$ 57,948
Local sources	-	-	-	-
Rental	-	-	-	-
Interest	-	30,740	24,515	18,954
Total revenues	-	30,740	53,465	76,902
Expenditures				
Public works	-	-	-	-
Capital outlay	-	-	-	2,036
Total expenditures	-	-	-	2,036
Revenues over (under) expenditures	-	30,740	53,465	74,866
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	-	-	(58,400)	(83,100)
Total other financing sources (uses)	-	-	(58,400)	(83,100)
Net change in fund balances	-	30,740	(4,935)	(8,234)
Fund balances, beginning of year, as previously reported	5,700	25,643	949,196	359,425
Prior period adjustment	-	-	-	-
Fund balances, beginning of year, as restated	5,700	25,643	949,196	359,425
Fund balances, end of year	\$ 5,700	\$ 56,383	\$ 944,261	\$ 351,191

Public Works Building	2001 DWRF/SRF Project	City County Building	Total Nonmajor Capital Project Funds
\$ -	\$ 43,565	\$ -	\$ 130,463
-	15,697	11,400	27,097
-	-	78,600	78,600
-	6,880	-	81,089
-	66,142	90,000	317,249
-	-	142,402	142,402
79	21,338	-	23,453
79	21,338	142,402	165,855
(79)	44,804	(52,402)	151,394
-	-	52,401	52,401
-	-	-	(141,500)
-	-	52,401	(89,099)
(79)	44,804	(1)	62,295
1,459,347	325,981	71,000	3,196,292
-	168,278	-	168,278
1,459,347	494,259	71,000	3,364,570
\$ 1,459,268	\$ 539,063	\$ 70,999	\$ 3,426,865

CITY OF SAULT STE. MARIE

**COMBINING BALANCE SHEET
PERMANENT FUNDS**

JUNE 30, 2005

ASSETS	Seal Estate Trust	Governor Osborn Trust	Cemetery Perpetual Care	Total Permanent Funds
Cash and cash equivalents	\$ 38,788	\$ 35,275	\$ 216,346	\$ 290,409
Restricted investments	1,537,619	900,000	40,095	2,477,714
Total assets (equal to reserved fund balances)	\$ 1,576,407	\$ 935,275	\$ 256,441	\$ 2,768,123

CITY OF SAULT STE. MARIE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
PERMANENT FUNDS**

FOR THE YEAR ENDED JUNE 30, 2005

	Seal Estate Trust	Governor Osborn Trust	Cemetery Perpetual Care	Total Permanent Funds
Revenues				
Charge for services	\$ -	\$ -	\$ 3,838	\$ 3,838
Interest	65,724	21,355	7,357	94,436
Total revenues	65,724	21,355	11,195	98,274
Expenditures				
Capital outlay	-	-	-	-
Revenues over (under) expenditures	65,724	21,355	11,195	98,274
Other financing sources (uses)				
Net appreciation in fair value of investments	134,436	-	-	134,436
Transfers out	(61,484)	(10,182)	(3,918)	(75,584)
Total other financing sources (uses)	72,952	(10,182)	(3,918)	58,852
Net change in fund balance	138,676	11,173	7,277	157,126
Fund balances, beginning of year, as previously reported	1,262,565	924,102	249,164	2,435,831
Prior period adjustment	175,166	-	-	175,166
Fund balances, beginning of year, as restated	1,437,731	924,102	249,164	2,610,997
Fund balances, end of year	\$ 1,576,407	\$ 935,275	\$ 256,441	\$ 2,768,123

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS

JUNE 30, 2005

	Parking	Transportation Garage Operations	Sewer Plant Equipment Replacement	Water Equipment Replacement	Total Nonmajor Enterprise Funds
Assets					
Current assets					
Cash and cash equivalents	\$ 239,633	\$ (2,473)	\$ 928,823	\$ 175,509	\$ 1,341,492
Accounts receivable	-	2,474	-	-	2,474
Total current assets	239,633	1	928,823	175,509	1,343,966
Noncurrent assets					
Capital assets not being depreciated	156,472	-	-	-	156,472
Capital assets, net of depreciation	14,858	-	-	-	14,858
Total noncurrent assets	171,330	-	-	-	171,330
Total assets	410,963	1	928,823	175,509	1,515,296
Liabilities					
Noncurrent liabilities					
Compensated absences	4,431	-	-	-	4,431
Net assets					
Investment in capital assets	171,330	-	-	-	171,330
Unrestricted	235,202	1	928,823	175,509	1,339,535
Total net assets	\$ 406,532	\$ 1	\$ 928,823	\$ 175,509	\$ 1,510,865

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	Parking	Transportation Garage Operations	Sewer Plant Equipment Replacement	Water Equipment Replacement	Total Nonmajor Enterprise Funds
Operating revenues					
Charge for services	\$ 196,964	\$ -	\$ -	\$ -	\$ 196,964
Operating expenses					
Parking lot expenses	190,880	-	-	-	190,880
Depreciation	3,691	-	-	-	3,691
Total operating expenses	194,571	-	-	-	194,571
Operating income (loss)	2,393	-	-	-	2,393
Nonoperating revenues					
Interest	3,106	-	7,397	951	11,454
Miscellaneous	4,400	-	-	-	4,400
Total nonoperating revenues	7,506	-	7,397	951	15,854
Income (loss) before transfers	9,899	-	7,397	951	18,247
Transfers					
Transfers in	12,000	-	92,000	126,700	230,700
Transfers out	(10,000)	-	(52,500)	(52,500)	(115,000)
Total transfers	2,000	-	39,500	74,200	115,700
Change in net assets	11,899	-	46,897	75,151	133,947
Net assets, beginning of year	394,633	1	881,926	100,358	1,376,918
Net assets, end of year	\$ 406,532	\$ 1	\$ 928,823	\$ 175,509	\$ 1,510,865

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	Parking	Transportation Garage Operations	Sewer Plant Equipment Replacement
Cash flows from operating activities			
Cash collected from customers	\$ 196,964	\$ (1,708)	\$ -
Cash paid for employee wages and benefits	(113,572)	-	-
Cash paid for other operating and administrative expenses	(78,452)	(765)	-
Net cash provided by (used in) operating activities	4,940	(2,473)	-
Cash flows from non-capital financing activities			
Transfers in	12,000	-	92,000
Transfers out	(10,000)	-	(52,500)
Miscellaneous revenue	4,400	-	-
Net cash provided by (used in) non-capital financing activities	6,400	-	39,500
Cash flows from capital and related financing activities			
Purchase of property, plant and equipment	(7,256)	-	-
Cash flows from investing activities			
Interest revenue	3,106	-	7,397
Net increase (decrease) in cash and cash equivalents	7,190	(2,473)	46,897
Cash and cash equivalents, beginning of year	232,443	-	881,926
Cash and cash equivalents, end of year	\$ 239,633	\$ (2,473)	\$ 928,823

Water Equipment Replacement	Total Nonmajor Enterprise Funds
\$ -	\$ 195,256
-	(113,572)
-	(79,217)
-	2,467
126,700	230,700
(52,500)	(115,000)
-	4,400
74,200	120,100
-	(7,256)
951	11,454
75,151	126,765
100,358	1,214,727
\$ 175,509	\$ 1,341,492

Continued...

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	<u>Parking</u>	<u>Transportation Garage Operations</u>	<u>Sewer Plant Equipment Replacement</u>
Cash flows from operating activities			
Operating income (loss)	\$ 2,393	\$ -	\$ -
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	3,691	-	-
Changes in operating assets and liabilities which provided (used) cash			
Accounts receivable	-	(1,708)	-
Accounts payable	(1,123)	(765)	-
Compensated absences	(21)	-	-
Net cash provided by (used in) operating activities	<u>\$ 4,940</u>	<u>\$ (2,473)</u>	<u>\$ -</u>

<u>Water Equipment Replacement</u>		<u>Total Nonmajor Enterprise Funds</u>	
\$	-	\$	2,393
	-		3,691
	-		(1,708)
	-		(1,888)
	-		(21)
<u>\$</u>	<u>-</u>	<u>\$</u>	<u>2,467</u>

Concluded

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS

JUNE 30, 2005

	Data Processing	Stock and Equipment	Total Internal Service Funds
Assets			
Current assets			
Cash and cash equivalents	\$ 125,694	\$ 1,182,218	\$ 1,307,912
Accounts receivable	-	2,953	2,953
Inventory	-	88,480	88,480
Total current assets	125,694	1,273,651	1,399,345
Noncurrent assets			
Capital assets not being depreciated	86,894	-	86,894
Capital assets, net of depreciation	154,695	747,237	901,932
Total noncurrent assets	241,589	747,237	988,826
Total assets	367,283	2,020,888	2,388,171
Liabilities			
Current liabilities			
Accounts payable	3	23,046	23,049
Noncurrent liabilities			
Compensated absences	-	12,379	12,379
Total liabilities	3	35,425	35,428
Net assets			
Investment in capital assets	241,589	747,237	988,826
Unrestricted	125,691	1,238,226	1,363,917
Total net assets	\$ 367,280	\$ 1,985,463	\$ 2,352,743

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Data Processing	Stock and Equipment	Total Internal Service Funds
Operating revenues			
Charges for services	\$ 162,645	\$ 820,476	\$ 983,121
Operating expenses			
Operation of equipment	146,832	807,452	954,284
Depreciation	46,686	190,011	236,697
Total operating expenses	193,518	997,463	1,190,981
Operating income (loss)	(30,873)	(176,987)	(207,860)
Nonoperating revenues			
Interest	-	22,465	22,465
Miscellaneous	-	116,327	116,327
Total nonoperating revenues	-	138,792	138,792
Income (loss) before transfers	(30,873)	(38,195)	(69,068)
Transfers			
Transfers in	-	42,385	42,385
Total transfers	-	42,385	42,385
Change in net assets	(30,873)	4,190	(26,683)
Net assets, beginning of year	398,153	1,981,273	2,379,426
Net assets, end of year	\$ 367,280	\$ 1,985,463	\$ 2,352,743

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	Data Processing	Stock and Equipment	Total Internal Service Funds
Cash flows from operating activities			
Cash collected from other funds	\$ 162,645	\$ 819,652	\$ 982,297
Cash paid for employee wages and benefits	(113,614)	(105,990)	(219,604)
Cash paid for other operating and administrative expenses	(33,440)	(675,120)	(708,560)
Net cash provided by (used in) operating activities	15,591	38,542	54,133
Cash flows from non-capital financing activities			
Transfers in	-	42,385	42,385
Miscellaneous revenue	-	116,327	116,327
Net cash provided (used in) by non-capital financing activities	-	158,712	158,712
Cash flows from capital and related financing activities			
Purchase of property, plant and equipment	(50,495)	(54,993)	(105,488)
Net cash provided by (used in) capital and related financing activities	(50,495)	(54,993)	(105,488)
Cash flows from investing activities			
Interest revenue	-	22,465	22,465
Net increase (decrease) in cash and cash equivalents	(34,904)	164,726	129,822
Cash and cash equivalents, beginning of year	160,598	1,017,492	1,178,090
Cash and cash equivalents, end of year	\$ 125,694	\$ 1,182,218	\$ 1,307,912

Continued...

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	<u>Data Processing</u>	<u>Stock and Equipment</u>	<u>Total Internal Service Funds</u>
Cash flows from operating activities			
Operating income (loss)	\$ (30,873)	\$ (176,987)	\$ (207,860)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	46,686	190,011	236,697
Changes in operating assets and liabilities which provided (used) cash			
Accounts receivable	-	(824)	(824)
Inventory	-	24,332	24,332
Accounts payable	(222)	2,293	2,071
Accrued expenses	-	(283)	(283)
Net cash provided by (used in) operating activities	<u>\$ 15,591</u>	<u>\$ 38,542</u>	<u>\$ 54,133</u>

Concluded

CITY OF SAULT STE MARIE
COMBINING BALANCE SHEET
GOVERNMENTAL COMPONENT UNITS

JUNE 30, 2005

	Downtown Development Authority	Economic Development Corporation	TIFA
ASSETS			
Cash and cash equivalents	\$ 1,265,599	\$ 140,809	\$ 171,130
Investments	-	320,000	-
Accounts receivable	-	396	-
Special assessment receivable	26,357	-	-
Prepaid expenditures	-	-	-
Restricted investments	-	-	-
Total assets	<u>\$ 1,291,956</u>	<u>\$ 461,205</u>	<u>\$ 171,130</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 7,805	\$ -	\$ 132,840
Accrued expenses	1,096	7,845	-
Deferred revenue	26,357	-	-
Total liabilities	<u>35,258</u>	<u>7,845</u>	<u>132,840</u>
Fund balances			
Restricted	-	-	-
Unreserved - undesignated	1,256,698	453,360	38,290
Total fund balances	<u>1,256,698</u>	<u>453,360</u>	<u>38,290</u>
Total liabilities and fund balances	<u>\$ 1,291,956</u>	<u>\$ 461,205</u>	<u>\$ 171,130</u>
Reconciliation of Fund Balances on the Balance Sheet for Component Units to the Statement of Net Assets			
Fund balances - component units	\$ 1,256,698	\$ 453,360	\$ 38,290
Amounts reported for component units in the statement of net assets are different because			
Certain assets, such as special assessments receivable, are not due and receivable in the current period and therefore are offset with deferred revenue in the funds.			
Add - special assessments receivable	26,357	-	-
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			
Add - capital assets (net)	-	26,605	-
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Deduct - compensated absences payable	-	(6,385)	-
Net assets of component units	<u>\$ 1,283,055</u>	<u>\$ 473,580</u>	<u>\$ 38,290</u>

		Total Governmental Component Units	
Library			
\$	478,690	\$	2,056,228
	77,997		397,997
	21,500		21,896
	-		26,357
	1,518		1,518
	154,849		154,849
\$	734,554	\$	2,658,845

\$	61,641	\$	202,286
	-		8,941
	-		26,357
61,641		237,584	

	154,849		154,849
	518,064		2,266,412
672,913		2,421,261	
\$	734,554	\$	2,658,845

\$ 672,913 \$ 2,421,261

- 26,357

242,997 269,602

(19,641)	(26,026)
\$ 896,269	\$ 2,691,194

CITY OF SAULT STE. MARIE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL COMPONENT UNITS**

FOR THE YEAR ENDED JUNE 30, 2005

	Downtown Development Authority	Economic Development Corporation	TIFA
Revenues			
Local sources	\$ 2,000	\$ -	\$ -
Taxes	518,034	-	162,588
Special assessments	39,925	-	-
Charges for services	-	-	-
Interest	10,755	7,957	1,209
Miscellaneous	77,873	146,086	-
Total revenues	648,587	154,043	163,797
Expenditures			
General government	-	148,697	-
Culture and recreation	-	-	-
Other expenditures	587,631	-	159,671
Total expenditures	587,631	148,697	159,671
Net change in fund balance	60,956	5,346	4,126
Fund balances, beginning of year, as previously reported	1,195,742	443,664	34,164
Prior period adjustment	-	4,350	-
Fund balance, beginning of year, as restated	1,195,742	448,014	34,164
Fund balances, end of year	\$ 1,256,698	\$ 453,360	\$ 38,290
Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balance of Component Units to the Statement of Activities			
Net change in fund balances - component units	\$ 60,956	\$ 5,346	\$ 4,126
Amounts reported for component units in the statement of activities are different because			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.			
Add - capital outlay	-	-	-
Deduct - depreciation expense	-	(3,449)	-
Special assessments receivable are long-term in nature and are collectable over several years. However the current receipts are reflected as revenues on the fund statements.			
Deduct - special assessment receipts	(39,925)	-	-
Add - current year special assessments	29,229	-	-
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.			
Deduct/ add - increase/ decrease in compensated absences	-	1,767	-
Change in net assets of component units	\$ 50,260	\$ 3,664	\$ 4,126

		Total Governmental Component Units	
Library			
\$	184,394	\$	186,394
	-		680,622
	-		39,925
	130,847		130,847
	10,297		30,218
	319,668		543,627
	645,206		1,611,633
	-		148,697
	626,145		626,145
	-		747,302
	626,145		1,522,144
	19,061		89,489
	653,852		2,327,422
	-		4,350
	653,852		2,331,772
\$	672,913	\$	2,421,261

\$ 19,061 \$ 89,489

45,902 -
(75,189) (78,638)

- (39,925)
- 29,229

	2,436		4,203
\$	(7,790)	\$	4,358

CITY OF SAULT STE. MARIE
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND - CURRENT TAX COLLECTION FUND

FOR THE YEAR ENDED JUNE 30, 2005

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
ASSETS				
Cash and cash equivalents, unrestricted	\$ 65,041	\$ 3,514,095	\$ 3,506,038	\$ 73,098
Restricted investments	319,026	67,885	2,406	384,505
Total assets	\$ 384,067	\$ 3,581,980	\$ 3,508,444	\$ 457,603
LIABILITIES				
Accrued liabilities	\$ 321,701	\$ 265,752	\$ 201,736	\$ 385,717
Due to other governmental units	62,366	3,442,309	3,432,789	71,886
Total liabilities	\$ 384,067	\$ 3,708,061	\$ 3,634,525	\$ 457,603



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

November 18, 2005

Honorable Mayor and Members
of the City Commission
City of Sault Ste. Marie
Sault Ste. Marie, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Sault Ste. Marie* (the "City"), as of and for the year ended June 30, 2005, which collectively comprise the *City of Sault Ste. Marie's* basic financial statements and have issued our report thereon dated November 18, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City in a separate letter dated November 18, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and the City Commission and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

SINGLE AUDIT

CITY OF SAULT STE. MARIE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Program or Award Grant Number	Expenditures
U.S. DEPARTMENT OF JUSTICE			
Pass through Michigan Department of Community Health			
Local Law Enforcement Block Grant	16.592	2004-LB-BX-0863	\$ 1,678
Sane 10/1/04 to 9/30/05	16.579	70868-4K-04	24,850
Sane 10/1/03 to 9/30/04	16.579	70868-5K-03	9,155
Total U.S. Department of Justice			35,683
U.S. ENVIRONMENTAL PROTECTION AGENCY			
Pass through Michigan Department of Environmental Quality			
Capitalization Grants for State Revolving Funds	66.458	5129-04	213,319
Capitalization Grants for Drinking Water State Revolving Funds	66.458	7010-03	473,182
Coastal Management Grant	11.419	03D-11.04	12,693
Total U.S. Environmental Protection Agency			699,194
U.S. DEPARTMENT OF TRANSPORTATION			
Passed through Michigan Department of Transportation			
Transportation Enhancement Project	20.205		39,833
Project Zero	93.558	2002-0084 Z-6	11,591
Section 5311 Operating Assistance	20.509	2002-0084 Z-9	32,472
Section 5311 Operating Assistance	20.509	2002-0084 Z-7	9,761
Section 5309 Capital grant	20.507	2002-0084 Z-3	256
Total U.S. Department of Transportation			93,913
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed through Michigan State Police			
Part II Critical Infrastructure Protection - Stonegarden	97.004	2003 SHSGP	27,761
State Homeland Security Training Grant	97.004	2003 SHSGP II	5,486
Total U.S. Department of Homeland Security			33,247
Total Federal Award Expenditures			\$ 862,037

Continued...

CITY OF SAULT STE. MARIE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Reconciliation from Schedule of Expenditures of Federal Awards to Federal Revenue Reported in the Financial Statements

Total federal revenue per financial statement	\$ 175,536
Loans listed on Schedule of Expenditures of Federal Awards	<u>686,501</u>
Federal expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 862,037</u>
	Concluded

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of presentation-

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the *City of Sault Ste. Marie*, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the government's basic financial statements.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO THE MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

November 18, 2005

Honorable Mayor and Members
of the City Commission
City of Sault Ste. Marie
Sault Ste. Marie, Michigan

Compliance

We have audited the compliance of the *City of Sault Ste. Marie* (the "City") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2005. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to its federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on its major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management, others within the organization, City Commission and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

CITY OF SAULT STE. MARIE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2005

SECTION I - SUMMARY OF AUDITORS RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	No
Reportable conditions identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No

Identification of major programs:

CFDA #

Name of Program

66.458

Capitalization Grants for State
Revolving Funds

Dollar threshold to distinguish between type A and type B programs:	\$300,000
Auditee qualified as a low risk auditee?	Yes

Continued....

CITY OF SAULT STE. MARIE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2005

SECTION II – FINANCIAL STATEMENT FINDINGS

No financial statement findings.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No federal award findings and questioned costs.

Concluded

ADDITIONAL INFORMATION

Continuing Disclosure Filing

City of Sault Ste. Marie
County of Chippewa, State of Michigan

Fiscal Year Ended
June 30, 2005

MUNICIPAL SECONDARY MARKET DISCLOSURE INFORMATION COVER SHEET

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository pursuant to Securities and Exchange Commission Rule 15c2-12.

Issuer's and/or Other Obligated Person's Name: City of Sault Ste. Marie, Michigan

CUSIP Numbers (attach additional sheet if necessary):

- ☐ Nine-digit number(s) to which the information relates:
☒ Information relates to **all securities** issued by the issuer having the following six-digit number(s): 169682, 804413
* * *

Number of pages of attached information:

Description of Material Event Notice / Financial Information (Check One):

1. _____ Principal and interest payment delinquencies
2. _____ Non-Payment related defaults
3. _____ Unscheduled draws on debt service reserves reflecting financial difficulties
4. _____ Unscheduled draws on credit enhancements reflecting financial difficulties
5. _____ Substitution of credit or liquidity providers, or their failure to perform
6. _____ Adverse tax opinions or events affecting the tax-exempt status of the security
7. _____ Modifications to rights of securities holders
8. _____ Bond calls
9. _____ Defeasances
10. _____ Release, substitution, or sale of property securing repayment of the securities
11. _____ Rating changes
12. _____ Failure to provide annual financial information as required for the fiscal years ended June 30, 1998, 1999 and 2000
13. _____ Other material event notice (specify)
14. X Financial information*: Please check all appropriate boxes:

☐ CAFR: (a) ☐ includes ☐ does not include Annual Financial Information
(b) Audited? Yes ☐ No ☐
☒ Annual Financial Information: Audited? Yes ☒ No ☐
☒ Operating Data
Fiscal Period Covered: Fiscal Year Ended June 30, 2005

*Financial information **should not** be filed with the MSRB

* * *

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature: _____

Name: John Boger Title: Finance Director

Employer: City of Sault Ste. Marie, Michigan

Address: 325 Court Street

City, State, Zip Code: Sault Ste. Marie, Michigan 49783

Voice Telephone Number: (906) 632-5726

LIST OF CURRENT
NATIONALLY RECOGNIZED MUNICIPAL SECURITIES
INFORMATION REPOSITORIES (NRMSIRs)

Standard & Poor's Securities Evaluations, Inc.
55 Water Street – 45th Floor
New York, New York 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
E-mail: nrmsir_repository@sandp.com

Bloomberg Municipal Repositories
100 Business Park Drive
Skillman, NJ 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
E-mail: Munis@Bloomberg.com

FT Interactive Data
Attn: NRMSIR
100 Williams Street
New York, New York 10038
Phone: (212) 771-6999
Fax: (212) 771-7390 (Secondary Market)
Fax: (212) 771-7391 (Primary Market)
E-mail: Nrmsir@interactivedata.com

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
E-mail: nrmsir@dpcdata.com

STATE INFORMATION REPOSITORY

Municipal Advisory Council of Michigan
1445 First National Building
Detroit, Michigan 48226-3517
Phone: 313-963-0420
Fax: 313-963-0943
E-mail: mac@macmi.com; bev@macmi.com

Population

	1960 U.S. Census.....	18,722
	1980 U.S. Census	14,448
	1970 U.S. Census	15,136
	1990 U.S. Census.....	14,689
	2000 U.S. Census.....	14,483
2000 U.S. Census	14,483	

Source: U.S. Department of Commerce - Bureau of Census

City of Sault Ste. Marie Taxable Value Fiscal Years Ended or Ending June 30, 2002 Through 2006

Assessed Value as of December 31	Year of State Equalization And Tax Levy	City's Fiscal Year Ended or Ending June 30	Ad Valorem Taxable Value	Equivalent Taxable Value of Property Granted Tax Abatement Under Act 198 (1)	Total Taxable Value	Percent Increase Over Prior Year
2000	2001	2002	\$226,633,609	\$3,429,775	\$230,063,384	3.88%
2001	2002	2003	230,746,348	3,501,750	234,248,098	1.82
2002	2003	2004	235,109,881	3,382,500	238,492,381	1.81
2003	2004	2005	242,512,276	3,288,300	245,800,576	3.06
2004	2005	2006	254,452,705	3,091,700	257,544,405	4.78
Per Capita Total Taxable Value for the Fiscal Year Ending June 30, 2006 (2).....						\$17,782.53

(1) At the full tax rate.

(2) Based on the City's 2000 Census population of 14,483.

Source: City of Sault Ste. Marie

City of Sault Ste. Marie Total Taxable Value by Use and Class Fiscal Years Ended or Ending June 30, 2002 Through 2006

Use	Fiscal Year Ended or Ending June 30				
	2002	2003	2004	2005	2006
Commercial	\$ 92,020,274	\$ 90,103,040	\$ 90,021,978	\$ 91,676,649	\$ 96,074,536
Industrial.....	17,984,495	17,240,220	18,394,769	18,158,882	17,836,806
Residential/Agr.	114,296,615	120,850,338	125,721,334	131,228,445	136,868,963
Utility.....	5,762,000	6,054,500	4,354,300	4,736,600	6,764,100
Total	<u>\$ 230,063,384</u>	<u>\$ 234,248,098</u>	<u>\$ 238,492,381</u>	<u>\$ 245,800,576</u>	<u>\$ 257,544,405</u>

Class	2002	2003	2004	2005	2006
Real Property	\$ 206,059,090	\$ 211,307,594	\$ 217,157,681	\$ 224,212,826	\$ 233,497,305
Personal Property.....	24,004,294	22,940,504	21,334,700	21,587,750	24,047,100
Total	<u>\$ 230,063,384</u>	<u>\$ 234,248,098</u>	<u>\$ 238,492,381</u>	<u>\$ 245,800,576</u>	<u>\$ 257,544,405</u>

Source: City of Sault Ste. Marie

Source: City of Sault Ste. Marie

City of Sault Ste. Marie
Percent of Total Taxable Value by Use and Class
Fiscal Years Ended or Ending June 30, 1998 Through 2002

Use	Fiscal Years Ended or Ending June 30				
	1998	1999	2000	2001	2002
Agriculture.....	0.00%	0.00%	0.00%	0.00%	0.00%
Commercial	43.62	43.19	43.01	42.00	40.00
Industrial.....	5.98	6.45	6.41	6.28	7.82
Residential	47.10	47.82	48.06	49.18	49.68
Utility.....	3.31	2.54	2.52	2.54	2.50
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Class	1998	1999	2000	2001	2002
Real Property	89.11%	89.94%	90.36%	90.81%	89.57%
Personal Property	10.89	10.06	9.64	9.19	10.43
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

City of Sault Ste. Marie
Percent of Total Taxable Value by Use and Class
Fiscal Years Ended or Ending June 30, 2002 Through 2006

Use	Fiscal Year Ended or Ending June 30				
	2002	2003	2004	2005	2006
Commercial	40.00%	38.47%	37.75%	37.30%	37.30%
Industrial.....	7.82	7.36	7.71	7.39	6.93
Residential	49.68	51.59	52.71	53.39	53.14
Utility.....	2.50	2.58	1.83	1.92	2.63
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Class	2002	2003	2004	2005	2006
Real Property	89.57%	90.21%	91.05%	91.22%	90.66%
Personal Property	10.43	9.79	8.95	8.78	9.34
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Source: City of Sault Ste. Marie

City of Sault Ste. Marie
State Equalized Valuation
Fiscal Years Ended or Ending June 30, 2002 Through 2006

Assessed Value as of December 31	Year of State Equalization and Tax Levy	City's Fiscal Year Ended or Ending June 30	Ad Valorem SEV	SEV of Property Granted Tax Abatement Under Act 198	Total SEV	Percent Increase Over Prior Year
2000	2001	2002	\$260,155,270	\$6,859,550	\$267,014,820	5.12%
2001	2002	2003	259,352,670	7,003,500	266,356,170	(0.24)
2002	2003	2004	264,172,120	6,765,000	270,937,120	1.72
2003	2004	2005	271,003,200	6,576,600	277,579,800	2.45
2004	2005	2006	286,837,500	6,183,400	293,020,900	5.56
Per Capita Total SEV for the Fiscal Year Ending June 30, 2006 (1)						\$20,232.06

(1) Based on the City's 2000 Census population of 14,483.

Source: City of Sault Ste. Marie

Source: City of Sault Ste. Marie

City of Sault Ste. Marie
Total SEV by Use and Class
Fiscal Years Ended or Ending June 30, 2002 Through 2006

	Fiscal Year Ended or Ending June 30				
<u>Use</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Commercial	\$ 103,559,450	\$ 100,149,000	\$ 98,794,300	\$ 99,209,600	\$ 103,532,100
Industrial.....	21,414,270	20,741,970	21,808,420	21,471,000	20,948,500
Residential/Agr.....	136,279,100	139,410,700	145,980,100	152,162,600	161,776,200
Utility.....	5,762,000	6,054,500	4,354,300	4,736,600	6,764,100
	<u>\$ 267,014,820</u>	<u>\$ 266,356,170</u>	<u>\$ 270,937,120</u>	<u>\$ 277,579,800</u>	<u>\$ 293,020,900</u>

<u>Class</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Real Property	\$ 241,116,620	\$ 241,644,470	\$ 247,887,520	\$ 254,444,600	\$ 267,626,000
Personal Property.....	25,898,200	24,711,700	23,049,600	23,135,200	25,394,900
	<u>\$ 267,014,820</u>	<u>\$ 266,356,170</u>	<u>\$ 270,937,120</u>	<u>\$ 277,579,800</u>	<u>\$ 293,020,900</u>

Source: City of Sault Ste. Marie

City of Sault Ste. Marie
Percent of Total SEV by Use and Class
Fiscal Years Ended or Ending June 30, 2002 Through 2006

	Fiscal Year Ended or Ending June 30				
<u>Use</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Commercial	38.78%	37.60%	36.46%	35.74%	35.33%
Industrial.....	8.02	7.79	8.05	7.74	7.15
Residential	51.04	52.34	53.88	54.82	55.21
Utility.....	2.16	2.27	1.61	1.70	2.31
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

<u>Class</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Real Property	90.30%	90.72%	91.49%	91.67%	91.33%
Personal Property.....	9.70	9.28	8.51	8.33	8.67
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Source: City of Sault Ste. Marie

City of Sault Ste. Marie
Maximum Tax Rates
Fiscal Year Ending June 30, 2006

<u>Millage Classification</u>	<u>Millage Authorized</u>	<u>Millage Reduction Fraction (1)</u>	<u>Maximum Allowable Millage</u>
Operating	20.0000	0.840695	16.8139
Refuse Collection and Disposal.....	3.0000	0.840695	2.5211
Library	1.0000	0.840695	0.8407

(1) Cumulative

Source: City of Sault Ste. Marie

Tax Abatement

The City's Taxable Value does not include the value of certain facilities which have temporarily been removed from the Ad Valorem Tax Roll pursuant to Act 198 or Act 255 (the "Acts"). The Acts were designed to provide a stimulus in the form of significant tax incentives to industry and commercial enterprises to renovate and expand aging facilities ("Rehab Properties") and to build new facilities ("New Properties"). Except as indicated below, under the provisions of the Acts, a local governmental unit (i.e., a city, village or township) may establish plant rehabilitation districts, industrial development districts, and commercial redevelopment districts and offer industrial and commercial firms certain property tax incentives or abatements to encourage restoration or replacement of obsolete facilities and to attract new facilities to the area.

An industrial or commercial facilities exemption certificate granted under either of the Acts entitles an eligible facility to exemption from Ad Valorem Taxes for a period of up to 12 years. In lieu of Ad Valorem Taxes, the eligible facility will pay an industrial facilities or commercial facilities tax (the "IFT Tax" and "CFT Tax", respectively). For properties granted tax abatement under Act 198 or Act 255 there exists separate tax rolls referred to as the industrial facilities tax roll (the "IFT Tax Roll") and the commercial facilities tax roll (the "CFT Tax Roll"), respectively. The IFT or CFT Tax for an obsolete facility which is being restored or replaced is determined in exactly the same manner as the Ad Valorem Tax; the important difference being that the value of the property remains at the Taxable Value level prior to the improvements even though the restoration or replacement substantially increases the value of the facility. For a new facility the IFT or CFT Tax is also determined the same as the Ad Valorem Tax but instead of using the total mills levied as Ad Valorem Taxes, a lower millage rate is applied. For abatements granted prior to 1994, this millage rate equals 1/2 of all tax rates levied by other than the state and local school district for operating purposes plus 1/2 of the 1993 rate levied by the local school district for operating purposes. For abatements granted after 1994, this millage rate equals 1/2 of all tax rates levied by other than the State plus none, 1/2 or all of the state tax rate (as determined by the State Treasurer). Act 255 expired as an effective statute of the State of Michigan on December 31, 1986. Tax abatements granted to commercial facilities under Act 255 prior to December 31, 1986 have expired.

The City has established goals, objectives and procedures to provide the opportunity for industrial and commercial development and expansion. Since 1974, the City has approved a number of applications for local property tax relief for industrial firms. Most abatements have been for new industrial facilities. The SEV of properties which have been granted tax abatement under Act 198, removed from the Ad Valorem Tax Roll and placed on the IFT Tax Rolls totaled \$6,859,550 for the fiscal year ending June 30, 2002. The IFT Taxes paid on these properties is equivalent to Ad Valorem Taxes paid on \$3,429,775 of Taxable Value at the full tax rate (the "Equivalent Taxable Value"). Upon expiration of the industrial facilities exemption certificates the current equalized valuation of the abated properties will return to the Ad Valorem Tax Roll as Taxable Value.

City of Sault Ste. Marie
Property Tax Rates
Fiscal Years Ended or Ending June 30, 2002 Through 2006

Levy <u>July 1</u>	Fiscal Years Ended or <u>Ending June 30</u>	<u>Operating</u>	Police and <u>Fire Pension</u>	Refuse Collection <u>and Disposal</u>	<u>Library</u>	<u>Total</u>
2001	2002	\$16.8139	\$2.3530	\$0.6370	\$0.8000	\$20.6039
2002	2003	16.8139	2.4161	0.5739	0.8000	20.6039
2003	2004	16.8139	2.7461	0.4200	0.8000	20.7800
2004	2005	16.8139	3.0211	0.4200	0.8000	21.0550
2005	2006	16.8139	3.1484	0.4200	0.8000	21.1823

Source: City of Sault Ste. Marie

City of Sault Ste. Marie
Principal Residence (1) Property Tax Rates by Governmental Unit
Fiscal Years Ended June 30, 2001 Through 2005

	Fiscal Year Ended June 30				
<u>Governmental Unit</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
City of Sault Ste. Marie	\$20.6039	\$20.6039	\$20.6039	\$20.7800	\$21.1823
Chippewa County	8.6244	8.5720	8.5708	8.5962	8.5273
State Education Levy	6.0000	6.0000	6.0000	5.0000	6.0000
Sault Ste. Marie Public Schools...	2.7500	2.7500	2.7500	2.6200	2.4600
Intermediate School District	<u>1.0133</u>	<u>1.0026</u>	<u>0.9953</u>	<u>0.9952</u>	<u>0.9898</u>
Total.....	<u>\$38.9916</u>	<u>\$38.9285</u>	<u>\$38.9200</u>	<u>\$37.9914</u>	<u>\$39.1594</u>

City of Sault Ste. Marie
Non-Principal Residence (1) Property Tax Rates by Governmental Unit
Fiscal Years Ended June 30, 2001 Through 2005

	Fiscal Year Ended June 30				
<u>Governmental Unit</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
City of Sault Ste. Marie	\$20.6039	\$20.6039	\$20.6039	\$20.7800	\$21.1823
Chippewa County	8.6244	8.5720	8.5708	8.5962	8.5273
State Education Levy	6.0000	6.0000	6.0000	5.0000	6.0000
Sault Ste. Marie Public Schools..	20.7500	20.7500	20.7500	20.5804	20.4204
Intermediate School District	<u>1.0133</u>	<u>1.0026</u>	<u>0.9953</u>	<u>0.9952</u>	<u>0.9898</u>
Total.....	<u>\$56.9916</u>	<u>\$56.9285</u>	<u>\$56.9200</u>	<u>\$55.9518</u>	<u>\$57.1198</u>

(1) *Principal Residence* means a dwelling or unit in a multiple-unit dwelling subject to ad valorem property taxes that is owned and occupied as a principal residence by the owner of the dwelling or unit. Principal Residence includes all unoccupied property classified as agricultural adjacent and contiguous to the home of the owner that is not leased or rented by the owner to another person if the gross receipts of the agricultural or horticultural operations, if any, exceed the household income of the owner. If the gross receipts of the agricultural or horticultural operations do not exceed the household income of the owner, the Principal Residence includes only 5 acres adjacent and contiguous to the home of the owner. Principal Residence includes a life care facility registered under the living care disclosure act, Act No. 440 of the Public Acts of 1976, being sections 554.801 to 554.844 of the Michigan Compiled Laws. Principal Residence also includes property owned by a cooperative housing corporation and occupied as a principal residence by tenant stockholders. *Non-Principal Residence* is property not included in the above definition.

Source: City of Sault Ste. Marie

**City of Sault Ste. Marie
Property Tax Collections
Fiscal Years Ended or Ending June 30, 2002 Through 2006**

July 1 <u>Levy</u>	Fiscal Year Ended or Ending <u>June 30</u>	<u>Tax Levy (1)</u>	Collections to March 1 <u>Following Levy</u>	Percent <u>Collected</u>
2001	2002	4,461,233	4,123,257	92.42
2002	2003	4,528,778	4,188,603	92.49
2003	2004	4,654,115	4,348,754	93.44
2004	2005	4,885,476	4,604,561	94.25
2005	2006	5,164,303	(In Process of Collection)	

(1) Includes all millages levied by the City. Includes certain taxes on properties granted tax abatement under Act 198.

Source: City of Sault Ste. Marie

(1) *Homestead* means a dwelling or unit in a multiple-unit dwelling subject to ad valorem property taxes that is owned and occupied as a principal residence by the owner of the dwelling or unit. Homestead includes all unoccupied property classified as agricultural adjacent and contiguous to the home of the owner that is not leased or rented by the owner to another person if the gross receipts of the agricultural or horticultural operations, if any, exceed the household income of the owner. If the gross receipts of the agricultural or horticultural operations do not exceed the household income of the owner, the homestead includes only 5 acres adjacent and contiguous to the home of the owner. Homestead includes a life care facility registered under the living care disclosure act, Act No. 440 of the Public Acts of 1976, being sections 554.801 to 554.844 of the Michigan Compiled Laws. Homestead also includes property owned by a cooperative housing corporation and occupied as a principal residence by tenant stockholders. *Non-homestead* is property not included in the above definition.

Source: City of Sault Ste. Marie

Profile of the Ten Largest Taxpayers

Reflected below are the City's ten largest property taxpayers, their principal product or service and respective Total Taxable Value for the fiscal year ending June 30, 2006.

**City of Sault Ste. Marie
Ten Largest Taxpayers
Fiscal Year Ending June 30, 2006**

<u>Taxpayer</u>	<u>Principal Product or Service</u>	<u>Taxable Value</u>	Percent of <u>Total (1)</u>
Edison Sault Electric Company	Electric Company	\$ 15,635,500	6.07%
DDR Michigan II LLC	Cascade Crossing Shopping Mall	7,601,482	2.95
Sault Ste. Marie Tribe of Chippewa Indians ..	Various.....	3,247,965	1.26
Pointe West I LP	Development.....	2,797,344	1.09
Key Plastics LLC	Plastics	2,848,000	0.11
Precision Edge Surgical Products.....	Medical Products	2,484,700	0.96
Ojibway LLC-Great Lakes LLC	Hotel	1,568,100	0.61
Sault Express Limited	Hotel	1,510,500	0.59
Central Savings Bank	Gas	1,424,400	0.55
McGahey, Randall & Judith	Construction.....	<u>1,318,205</u>	<u>0.51</u>
		<u>\$ 40,436,196</u>	<u>15.70%</u>

(1) Based on \$257,544,405 which the City's Total Taxable Value for its fiscal year ending June 30, 2006. Includes the Equivalent Taxable Value of property granted tax abatement under Act 198. See "Property Valuations" and "Tax Abatement" herein.

Source: City of Sault Ste. Marie

(1) Based on \$230,063,384 which the City's Total Taxable Value for its fiscal year ending June 30, 2002. Includes the Equivalent Taxable Value of property granted tax abatement under Act 198. See "Tax Abatement" herein.

Source: City of Sault Ste. Marie

Legal Debt Margin

Pursuant to the statutory and constitutional debt provisions set forth herein, the following table reflects the amount of additional debt the City may legally incur as of December 2, 2005.

Debt Limit (1)		\$29,302,090
Debt Outstanding	\$42,526,254	
Less: Exempt Debt.....	<u>25,670,000</u>	<u>16,856,254</u>
Legal Debt Margin.....		<u>\$12,445,836</u>

(1) 10% of \$293,020,900, which is the City's Total SEV for the fiscal year ending June 30, 2006. Includes the SEV of property granted tax abatement under Act 198.

Source: Municipal Advisory Council of Michigan and the City of Sault Ste. Marie

Debt Statement

The following table reflects a breakdown of the City's direct and overlapping debt as of December 2, 2005 including the Bonds described herein. Direct debt that is shown as self-supporting is paid from sources other than the City's General Fund.

To the extent necessary, the City may levy taxes on all taxable property within its boundaries without limitation as to rate or amount to pay the principal of and interest due on the bonds that are designated as Unlimited Tax ("UT"). However, the City's ability to levy tax to pay the debt service on the bonds that are designated as Limited Tax ("LT"), is subject to applicable charter, statutory and constitutional limitations. See "CITY TAXATION AND LIMITATION" herein.

<u>City Direct Debt</u>	<u>Gross</u>	<u>Self-Supporting</u>	<u>Net</u>
Share of County Issued Bonds:			
Dated December 11, 2001 (LT).....	\$ 2,410,000	\$ 2,410,000	\$ -0-
Dated November 4, 1998 (LT)	2,350,000	2,350,000	-0-
Dated November 29, 1995 (LT)	<u>2,190,000</u>	<u>2,190,000</u>	<u>-0-</u>
Subtotal	<u>\$ 6,950,000</u>	<u>\$ 6,950,000</u>	<u>\$ -0-</u>
Building Authority Bonds:			
Dated June 1, 1997 (LT).....	\$ 545,000	\$ -0-	\$ 545,000
Dated March 1, 1994 (LT).....	<u>340,000</u>	<u>340,000</u>	<u>-0-</u>
Subtotal	<u>\$ 885,000</u>	<u>\$ 340,000</u>	<u>\$ 545,000</u>
Michigan Transportation Fund Bonds:			
Dated November 1, 2000 (LT)	\$ 725,000	\$ 725,000	\$ -0-
Dated June 1, 1997 (LT).....	540,000	540,000	-0-
Dated October 1, 1991 (LT)	<u>75,000</u>	<u>75,000</u>	<u>-0-</u>
Subtotal	<u>\$ 1,340,000</u>	<u>\$ 1,340,000</u>	<u>\$ -0-</u>
Tax Increment Bonds:			
Dated April 27, 2005 (LT).....	\$ 6,000,000	\$ 6,000,000	\$ -0-
Dated November 1, 1994 (LT)	85,000	85,000	-0-
Dated June 1, 1994 (LT).....	245,000	245,000	-0-
Dated September 1, 1991 (LT).....	<u>50,000</u>	<u>50,000</u>	<u>-0-</u>
Subtotal	<u>\$ 6,380,000</u>	<u>\$ 6,380,000</u>	<u>\$ -0-</u>
Capital Improvement Bonds:			
Dated November 9, 2005 (LT).....	\$ 790,000	\$ -0-	\$ 790,000
Dated March 8, 2005 (LT).....	1,500,000	1,260,000	240,000
Dated October 1, 2002 (LT)	<u>3,350,000</u>	<u>3,350,000</u>	<u>-0-</u>
Subtotal	<u>\$ 5,640,000</u>	<u>\$ 4,610,000</u>	<u>\$ 1,030,000</u>

Water and Sewer Bonds:

Dated March 27, 2003 (LT)	\$ 3,010,000	\$ 3,010,000	\$ -0-
Dated September 26, 2002 (LT)	3,250,000	3,250,000	-0-
Dated June 1, 2002 (UT)	3,235,000	3,235,000	-0-
Dated September 28, 2001 (LT)	1,660,000	1,660,000	-0-
Dated September 29, 1998 (LT)	3,020,000	3,020,000	-0-
Dated September 29, 1998 (LT)	3,305,000	3,305,000	-0-
Dated September 30, 1997 (LT)	435,000	435,000	-0-
Dated September 1, 1997 (LT)	575,000	575,000	-0-
Dated September 28, 1995 (LT)	2,490,000	2,490,000	-0-
Subtotal	<u>\$ 20,980,000</u>	<u>\$ 20,980,000</u>	<u>\$ -0-</u>

Installment Purchase Obligations:

Dated June 29, 2004 (LT)	\$ 9,707	\$ -0-	\$ 9,707
Dated June 1, 2004 (LT)	325,947	-0-	325,947
Dated June 12, 1989 (LT)	15,600	15,600	-0-
Subtotal	<u>\$ 351,254</u>	<u>\$ 15,600</u>	<u>\$ 335,654</u>
Total	<u>\$ 42,526,254</u>	<u>\$ 40,615,600</u>	<u>\$ 1,910,654</u>

Per Capita Net City Direct Debt (1)	\$131.92
Percent of Net Direct Debt to Total SEV (2)	0.65%

<u>Overlapping Debt (3)</u>	<u>Gross</u>	<u>City Share As Percent of Gross</u>	<u>Net</u>
Sault Ste. Marie Public Schools	\$ 11,530,000	59.04%	\$ 6,807,312
Chippewa County	<u>5,615,000</u>	29.91	<u>1,679,447</u>
Totals	<u>\$ 17,145,000</u>		<u>\$ 8,486,759</u>

Per Capita Net Overlapping Debt (1)	\$585.98
Percent of Net Overlapping Debt to Total SEV (2)	2.90%

Per Capita Net Direct and Overlapping Debt (1)	\$717.90
Percent of Net Direct and Overlapping Debt to Total SEV (2)	3.55%

(1) Based on the City's 2000 Census population of 14,483.

(2) Based on \$293,020,900 that is the City's Total SEV for the fiscal year ending June 30, 2006. Includes the SEV of property granted tax abatement under Act 198.

(3) Overlapping debt is the portion of another taxing unit's debt for which property taxpayers of the City are liable in addition to debt issued by the City.

Source: Municipal Advisory Council of Michigan and the City of Sault Ste. Marie

Per Capita Net Overlapping Debt (2)	\$597.39
Percent of Net Overlapping Debt to Total SEV (3)	3.70%

Per Capita Net Direct and Overlapping Debt (2)	\$641.11
Percent of Net Direct and Overlapping Debt to Total SEV (3)	3.97%

(4) The Bonds described herein.

(5) Based on the City's 2000 Census population of 16,542.

(6) Based on \$267,014,820 that is the City's Total SEV for the fiscal year ending June 30, 2002. Includes the SEV of property granted tax abatement under Act 198. See "Property Valuations" and "Tax Abatement" herein.

(7) Overlapping debt is the portion of another taxing unit's debt for which property taxpayers of the City are liable in addition to debt issued by the City.

Source: Municipal Advisory Council of Michigan and the City of Sault Ste. Marie

**City of Sault Ste. Marie
General Pension System
Five Year History**

Valuation Date <u>December 31</u>	Actuarial Accrued <u>Liability</u>	Actuarial Value of <u>Assets</u>	Funded <u>Ratio</u>
1995	\$ 9,671,179	\$ 9,814,293	101.48%
1996	10,451,331	10,820,237	103.35
1997	12,141,035	12,586,970	103.67
1998	12,839,051	13,781,949	107.34
1999	13,610,188	15,514,516	113.99

Source: City of Sault Ste. Marie

**City of Sault Ste. Marie
Police and Fire Pension System
Five Year History
(000's)**

Valuation Date <u>December 31</u>	Actuarial Accrued <u>Liability</u>	Actuarial Value of <u>Assets</u>	Funded <u>Ratio</u>
1995	\$11,945	\$ 9,298	78.82%
1996	13,011	10,228	78.59
1997	14,006	10,690	76.32
1998	14,555	11,232	77.17
1999	15,059	11,813	78.44

**City of Sault Ste. Marie
Revenues From the State of Michigan
Fiscal Years Ended or Ending June 30, 2001 Through 2006**

	Fiscal Year Ended or Ending June 30					
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006 (1)</u>
Sales Tax	\$2,121,000	\$2,068,810	\$1,968,064	\$1,771,162	\$1,747,466	\$1,747,466
Income Tax.....	0	0	0	0	0	0
Liquor Licenses	0	0	0	0	0	0
Total Revenues.....	<u>\$2,121,000</u>	<u>\$2,068,810</u>	<u>\$1,968,064</u>	<u>\$1,771,162</u>	<u>\$1,747,466</u>	<u>\$1,747,466</u>

(1) As projected.

Source: City of Sault Ste. Marie

**City of Sault Ste. Marie
General Pension System
Five-Year History**

Valuation Date <u>December 31</u>	Actuarial Accrued <u>Liability</u>	Actuarial Value of <u>Assets</u>	Funded <u>Ratio</u>
1999	\$13,610,188	\$15,514,516	113.99%
2000	15,878,641	16,694,480	105.14
2001	15,814,445	17,481,855	110.54
2002	17,447,662	17,503,766	100.32
2003	18,105,810	18,223,939	100.67

Source: City of Sault Ste. Marie

**City of Sault Ste. Marie
Police and Fire Pension System
Five-Year History
(000's)**

Valuation Date	Actuarial Accrued <u>Liability</u>	Actuarial Value of <u>Assets</u>	Funded <u>Ratio</u>
<u>June 30</u>			
2000	\$15,986,238	\$12,106,796	75.73%
2001	16,519,263	12,323,362	74.60
2002	17,439,131	12,198,649	69.96
2003	19,043,533 (1)	11,819,254	62.06
2004	19,529,555	11,600,524	59.40

(1) After changes in actuarial assumptions.

Source: City of Sault Ste. Marie

Source: City of Sault Ste. Marie

LABOR CONTRACTS

Approximately 72.9% of the City's permanent employees are represented by labor organizations. The following table illustrates the various labor organizations that represent City employees, the number of members in each and the expiration date of the present contract.

	<u>Membership</u>	<u>Current Expiration Date</u>
United Steelworkers of America-Public Works	50	June 30, 2001
United Steelworkers of America-Clerical	11	June 30, 2003
United Steelworkers of America-Fire Personnel	16	June 30, 2001*
United Steelworkers of America-Fire Command	3	June 30, 2003
Michigan Fraternal Order of Police Labor Council-Police Personnel	20	June 30, 2002
Michigan Fraternal Order of Police Labor Council-Police Sergeant	5	June 30, 2002
Non-Union Employees	<u>39</u>	
Total Permanent City Employees	<u>144</u>	

LABOR CONTRACTS

Approximately 74.07% of the City's permanent employees are represented by labor organizations. The following table illustrates the various labor organizations that represent City employees, the number of members in each and the expiration date of the present contract.

	<u>Membership</u>	<u>Current Expiration Date</u>
United Steelworkers of America-Public Works	46	June 30, 2004*
United Steelworkers of America-Clerical	9	June 30, 2006
United Steelworkers of America-Firefighters	15	June 30, 2004*
United Steelworkers of America-Fire Captains	3	June 30, 2008
Michigan Fraternal Order of Police Labor Council-Patrol Unit	18	June 30, 2005*
Michigan Fraternal Order of Police Labor Council-Patrol Unit	4	June 30, 2005*
Michigan Fraternal Order of Police Labor Council-Police Sergeant	5	June 30, 2006
Non-Union Employees	<u>35</u>	n/a
Total Permanent City Employees	<u>135</u>	

*In process of negotiation.

Source: City of Sault Ste. Marie

Profile of Major Employers

The table located below reflects the diversity of the ten largest employers in the City by the estimated number of employees and the products manufactured or services provided.

<u>Company</u>	<u>Principal Product or Service</u>	<u>Approximate Number of Employees</u>
Kewadin Hotel and Convention Center.	Casino, hotel with convention center	2,000
War Memorial Hospital	Health Care.....	650
Sault Ste. Marie Public Schools	Education.....	340
Wal-Mart Stores, Inc.	Department Store.....	250
Tribal Health Center	Medical Clinic	200
Lake Superior State University	Four-year college.....	200
City of Sault Ste. Marie	Local Government.....	146
Precision Edge Surgical Products, Inc...	Surgical Instruments	146
Army Corps of Engineers	Soo Locks.....	130
Glen's Market.....	Grocery Store	110

Source: City of Sault Ste. Marie

*In process of negotiation.

Source: City of Sault Ste. Marie

Source: City of Sault Ste. Marie

City of Sault Ste. Marie:

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001 (2)</u>
Employed.....	8,325	8,400	8,325	8,475	8,600	8,425
Unemployed.....	<u>750</u>	<u>725</u>	<u>700</u>	<u>625</u>	<u>625</u>	<u>775</u>
Labor Force.....	<u>9,075</u>	<u>9,100</u>	<u>9,025</u>	<u>9,100</u>	<u>9,225</u>	<u>9,200</u>
Unemployed as Percent of the Labor Force (1)	8.2%	7.9%	7.7%	7.0%	6.7%	8.4%

(1) Totals and percentages may differ due to rounding by the Office of Labor Market Information – Michigan Department of Career Development.

(2) Average through June 2001.

Source: Office of Labor Market Information – Michigan Department of Career Development

State of Michigan:

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Employed.....	4,659,000	4,753,000	4,835,000	4,950,000	5,016,000	4,964,000
Unemployed.....	<u>239,000</u>	<u>209,000</u>	<u>194,000</u>	<u>194,000</u>	<u>185,000</u>	<u>259,000</u>
Labor Force.....	<u>4,897,000</u>	<u>4,962,000</u>	<u>5,029,000</u>	<u>5,144,000</u>	<u>5,201,000</u>	<u>5,223,000</u>
Unemployed as Percent of the Labor Force (1)	4.9%	4.2%	3.9%	3.8%	3.6%	5.0%

Employment

Reflected below are the unemployment statistics for the County and the State for the calendar years 2000 through 2005.

County of Chippewa:

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005 (2)</u>
Employed.....	17,049	16,747	16,246	16,453	16,076	17,309
Unemployed.....	<u>1,212</u>	<u>1,298</u>	<u>1,297</u>	<u>1,430</u>	<u>1,588</u>	<u>941</u>
Labor Force.....	<u>18,261</u>	<u>18,045</u>	<u>17,543</u>	<u>17,883</u>	<u>17,664</u>	<u>18,250</u>
Unemployed as Percent of the Labor Force (1)	6.6%	7.2%	7.4%	8.0%	9.0%	5.2%

(1) Totals and percentages may differ due to rounding by the Office of Labor Market Information – Michigan Department of Labor and Economic Growth.

(2) As of October 2005.

Source: Office of Labor Market Information – Michigan Department of Labor and Economic Growth

State of Michigan:

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005 (2)</u>
Employed.....	4,987,000	4,886,000	4,691,000	4,674,000	4,719,343	4,832,169
Unemployed.....	<u>183,000</u>	<u>271,000</u>	<u>310,000</u>	<u>368,000</u>	<u>359,636</u>	<u>273,538</u>
Labor Force.....	<u>5,170,000</u>	<u>5,157,000</u>	<u>5,001,000</u>	<u>5,042,000</u>	<u>5,078,979</u>	<u>5,105,707</u>
Unemployed as Percent of Labor Force (1)	3.5%	5.3%	6.2%	7.3%	7.1%	5.4%

(1) Totals and percentages may differ due to rounding by the Office of Labor Market Information – Michigan Department of Labor and Economic Growth.

(2) As of October 2005.

Source: Office of Labor Market Information – Michigan Department of Labor and Economic Growth

(1) Totals and percentages may differ due to rounding by the Office of Labor Market Information – Michigan Department of Career Development.

(2) Average through June 2001.

Source: Office of Labor Market Information – Michigan Department of Career Development



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

November 18, 2005

City Commission
City of Sault Ste. Marie
Sault Ste. Marie, Michigan

Through our role in performing financial statement services, we have become familiar with your systems, operations and management team. As we work with our clients, we strive to provide direction and constructive feedback to help facilitate their success. The better we get to know you and your objectives, the more we can offer in terms of proactive advice.

In planning and performing our audit of the financial statements of the *City of Sault Ste. Marie* (the "City") for the year ended June 30, 2005, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

The memorandum that accompanies this letter summarizes comments related to internal controls and financial reporting responsibilities of the City. This letter does not affect our report dated November 18, 2005 on the financial statements of the City.

We have already discussed these comments with the City Manager and Finance Director, and we would be pleased to discuss them in further detail at your convenience.

Best wishes for a successful 2005-2006.

CITY OF SAULT STE. MARIE
COMMENTS AND RECOMMENDATIONS

JUNE 30, 2005

Bank Account Reconciliations

Timely preparation of complete and accurate bank reconciliations is a key to maintaining adequate control over both cash receipts and disbursements. Reconciliations of the bank statement balances to the general ledger balances should be prepared to determine that all cash transactions have been recorded properly in the month that they occurred and to discover bank errors. During the year the bank reconciliations appeared to be incomplete and contained significant unreconciled differences. An unreconciled difference that appears immaterial can obscure significant but offsetting items (such as bank errors or improperly recorded transactions) that would be a cause for investigation if the items were apparent. Not reconciling the accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis. A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.

During our review of the bank reconciliations that were available it was noted that a detailed listing of all outstanding checks was not maintained. A list of outstanding checks issued during the current month is prepared and a summary total of previous month's outstanding items are presented. From this total, the amount of previous month's outstanding checks that cleared during the current month is subtracted to arrive at total remaining outstanding items. Thus there is no complete list of outstanding checks prepared in the reconciliation of the bank accounts, and errors may accumulate in these previous month's outstanding checks.

We recommend that bank account reconciliations are prepared and the bank statement balance is reconciled to the general ledger balance and that a complete list of outstanding checks is prepared each month and that the list be attached to the reconciliation. We also recommend that the reconciliation and list of outstanding checks is attached and filed with the respective months' bank statement. In addition, we recommend that the reconciliations and all supporting documentation be reviewed for accuracy and completeness on a timely basis by the Finance Director and then initialed as evidence of his approval.

Michigan Finance Qualifying Statement

Beginning January 1, 2004, all governmental units subject to the Revised Municipal Finance Act (PA 34 of 2001) must submit their qualifying statement electronically using the Department of Treasury's website. The Qualifying Statement was due to the Michigan Department of Treasury no later than December 31, 2005.

Electronically Filing The Financial Statements

The Michigan Department of Treasury (the “Treasury”) has issued Numbered Letter 2004-5 which requests (under the authority of Michigan Compiled Law 141.427(1)) that all audits required in accordance with Public Act 2 of 1968 and Public Act 71 of 1919 be submitted electronically to the Treasury in a Portable Document Format (PDF) compatible with Adobe Acrobat. Although this filing process is not mandated at this time, the Treasury is strongly recommending that all governmental units file their year end audit reports including the Auditing Procedures Report (496), data collection form and management comment and recommendation letter electronically. We have provided the necessary information, in this electronic format, to the Finance Director to enable the City to comply.

Bayliss Library Branch Cash Accounts

During the performance of the audit procedures related to the Bayliss Public Library in 2004, we noted that bank accounts being used for branch operations at the remote locations are not recorded in the records of Bayliss Public Library. There are six bank accounts at the five branch locations which have not historically been recorded in the Bayliss Library records. Per discussion with management and review of the bank statements related to these accounts, it was noted that three of the five bank accounts were opened using the social security number of the person opening the account. Further, there is some confusion regarding the purpose and ownership of these accounts.

These bank accounts are generally used to deposit donations from patrons, small grants obtained by the branches and other miscellaneous revenues. In addition, small payments for purchase of books and periodicals purchase of supplies used for library programs, telephone and internet charges and other miscellaneous items. The lack of identification of the fiscal responsibility for these accounts could result in inaccurate accounting for the transactions and a risk of misappropriation of assets.

We again recommend that ownership of the accounts be determined. If these cash accounts are not the fiscal responsibility of the Library, the cash should remain with the various branches to be used as they see fit. Further, if the Library has no fiscal responsibility for the accounts, the City’s Federal Identification Number should not be used. Bayliss Public Library should document in their branch operating agreements that they are assuming no responsibility for these ancillary bank accounts.

If the Bayliss Library component unit of the City of Sault Ste. Marie is determined fiscally responsible for the cash in these accounts, the accounts opened under personal social security numbers should be closed and reopened using the City’s Federal Identification Numbers. The branch personnel would then be responsible to Bayliss Library staff to provide a monthly accounting of the transactions processed in these accounts and a reconciled bank statement for review and approval.

Conclusion

It has been a pleasure to provide audit services to the *City of Sault Ste. Marie*. Management was prepared for the audit, providing us with all supporting documents requested on a timely basis. The City’s finance department is friendly, conscientious and very helpful.

We appreciate your business! Thank you.